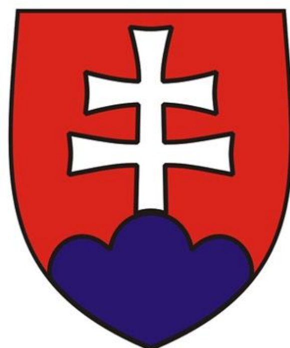

Draft Budgetary Plan of the Slovak Republic for 2022

October 2021

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Summary

The budget for the coming years is marked by a gradual shift from short-term urgent needs to Slovakia's medium- and long-term challenges. After the stabilisation of the situation related to the negative impacts of COVID-19, support for Slovakia's development through the implementation of the Recovery and Resilience Plan and a responsible approach to the sustainability of public finances are coming to the fore.

As in 2020, the year 2021 is significantly negatively affected by the consequences of the COVID-19 pandemic, including adverse health and economic impacts on the Slovak population. Protecting the health of both the population and the economy has been a priority, and this has been reflected in the increase in the public deficit and the general government debt in these years.

In 2022, the COVID-19 pandemic is projected to catch up and fade away, which the government is covering with a reserve in next year's budget. The focus on supporting the economy in 2022 will thus be taken over to a greater extent by the implementation of the Recovery Plan. Thanks to this, the budget also foresees a reduction in the general government deficit in 2022.

In accordance with the consolidation strategy set out in the Stability Programme, an active improvement of public finances will start from 2023, in line with the expected reactivation of European fiscal rules. This plan will reduce the general government deficit to below 3 % of GDP by 2023 and stabilise debt below 60% of GDP.

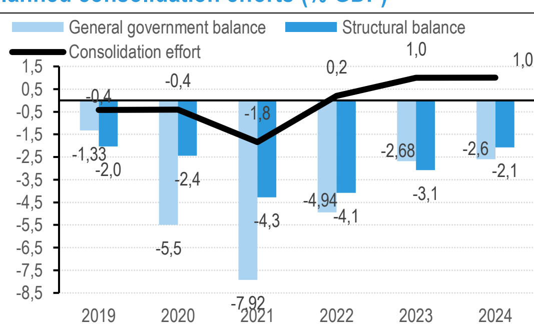
Even after debt falls below 60% of GDP, fullstabilisation of public finances is not guaranteed. First of all, public debt itself will only be stabilised at a level close to historical highs. In the long term, the negative demographic outlook will start to deteriorate the health of public finances towards the end of this decade. That is why it is crucial to push through the prepared reform of the constitutional Fiscal Responsibility Act together with the pension reform as soon as possible. Multi-year expenditure ceilings would reinforce the necessary consolidation beyond the budget horizon, while pension reform would significantly improve sustainability without short-term adverse effects on the economy. The basis for consolidation measures may consist of measures from expenditure reviews not yet implemented, as well as ongoing and future revisions, including revisions of tax expenditures. In addition to these measures, structural reforms introduced in the Recovery and Resilience Plan, in particular in the area of education, are equally important to achieve long-term sustainability.

After the global pandemic, the Slovak economy is gradually recovering from the recession and will reach its potential in 2023. Slovakia's GDP will grow by 3.7 % in 2021, when its dynamics will be dampened by the third wave of the pandemic. Even if, thanks to vaccination, the impacts of the third wave will be milder compared to late 2020, the labour market recovery will be interrupted and the economy will remain subdued for longer. In the short term, the economy will also be affected by the mismatch between strong global demand for goods and insufficient supply. This will result in temporary inflationary pressures and occasional interruptions in production. After the third wave of the pandemic, GDP will grow by 4.2 % in 2022, boosted by a recovery in private consumption and, in particular, investment. These, thanks also to the amount of resources from the EU Recovery Plan and other EU funds, will reach historic levels and will be the dominant factor of economic growth in the next two years. This will lead to a recovery in job creation, allowing employment to catch up with much of the crisis downturn.

Based on current developments marked by the COVID-19 pandemic, the general government deficit will rise to 7.9 % of GDP in 2021, up from a 5.5% deficit last year. Compared to the budget assumptions with a planned deficit of 7.4 % of GDP, expenditure on the COVID-19 pandemic increased mainly (by 2.1 % of GDP), which was not covered by an area-wide reserve of billion of euros. The negative budgetary impact of the pandemic is mainly offset by an increase in tax revenues (1.4% of GDP), which is related to a less pronounced tax response to the economic downturn compared to the global financial crisis. **In 2021, the structural deficit continues to grow strongly by 1.8 p.p. to 4.3 % of GDP.**

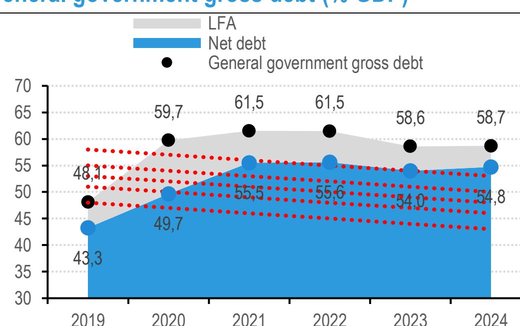
With the gradual fading of the anti-pandemic measures, the deficit will fall below the 5 % of GDP threshold in 2022 and will be outside the excessive deficit threshold of 3 % in 2023. The pandemic will continue to affect public finance in 2022, with the third wave expected to fade by mid-year. Overall, pandemic-related expenditure is projected at 0.7 % of GDP in 2022, with an overall economic deficit of 4.9 % of GDP. The 2022 budget also foresees the implementation of the government's as yet unspoken priorities to support economic growth, amounting to 0.5% of GDP. In accordance with the ambition in the Stability Programme, the structural deficit is planned to be reduced by 1 % of GDP in both 2023 and 2024. This consolidation plan corresponds to headline deficit targets of 2.7 % and 2.6 % of GDP in 2023 and 2024 respectively[1]. A specific consolidation plan will be presented in the course of next year when the situation regarding the further course of the pandemic becomes clearer. In the meantime, the budget provisionally foresees mainly a containment of curretns expenditures, especially wagebill. It also considers restrictive measures for larger state-owned enterprises. **Without an amendment to the Constitutional Fiscal Responsibility Act, it would be necessary to present a balanced budget for 2024.**

Planned consolidation efforts (% GDP)



Source: Ministry of Finance of the Slovak Republic

General government gross debt (% GDP)



Source: Ministry of Finance of the Slovak Republic

Note: 2019 and 2020 are according to the data sent by the Statistical Office Of The Slovak Republic to the Eurostat notification, which will be published in the second half of October. Final figures may vary slightly. GDP figures are based on preliminary data sent to Eurostat for the autumn notification. The time series of expected GDP levels for 2021 to 2024 has been recalculated using the nominal YoY growth chains from the latest forecast of the Macroeconomic Forecasts Committee. These assumptions are also used for other indicators.

Gross debt stabilises below 60 % of GDP over the forecast horizon, helped by the economic recovery and the gradual use of the accumulated cash provision, in addition to the consolidation plan. Debt will rise to an all-time high of 61.5 % of GDP in 2022. The main reason for the rising debt is the ongoing coronavirus pandemic and the necessary measures reflected in the high public deficit. In the coming years, the debt should slowly decline as a result of the completion of the anti-pandemic package and a favourable macroeconomic environment, supported by resources from the Recovery and Resilience Fund. The reduction of debt below 60 % of GDP is supported by faster economic growth and temporarily higher inflation, in addition to a decline in the general government deficit below 3 % of GDP. The use of the government's liquid assets, which exceeded 10 % of GDP last year and will return to pre-crisis levels by the end of the budget horizon, will also help to stabilise debt. Net debt will reach almost 56 % of GDP in 2024, remaining roughly stable compared to this year.

A number of reform initiatives in the area of public finances and structural policies are crucial to achieving long-term sustainability. In the context of historically worst values of long-term sustainability indicators, the main priority is to enforce the forthcoming constitutional Fiscal Responsibility Act. The reform introduces expenditure ceilings as the main operational fiscal rule, which, together with other changes, will contribute to greater counter-cyclicality. The amendment to the related current law reinforces control over expenditures and introduces analytical tools for medium-term budgeting, the so-called baseline scenarios of expenditure forecasts at the budgetary chapter level. Zero-based budgeting of investments became anchored in legislation in order to strengthen the efficiency of expenditures. Approval of pension reform, including restoring the link between retirement age and life expectancy, will strengthen long-term sustainability without short-term negative effects on the economy. Most of the structural

[1] The targeted decline in the nominal balance in 2024 of only 0.1 p.p. of GDP, with a projected structural balance reduction of 1% of GDP, is based on a renewed cooling of the economy caused by the end of the 3rd programming period of EU funds.

priorities are already directly defined in the Recovery and Resilience Plan and aim to increase the growth potential of the economy. In particular, education is a key area through the promotion of inclusion in pre-primary education, curriculum reform in regional education and the reform of the higher education environment.

The draft budgetary plan is based on the general government budget proposal for 2022 to 2024. The preparation of the material is part of the requirements arising from European Union legislation. It presents the evolution of the fiscal position, the projected evolution of the economy and a description of budgetary policy measures to achieve the set objectives over the medium term. The European Commission subsequently issues an opinion on the budgetary plan.

I. Macroeconomic forecasts of the draft budget

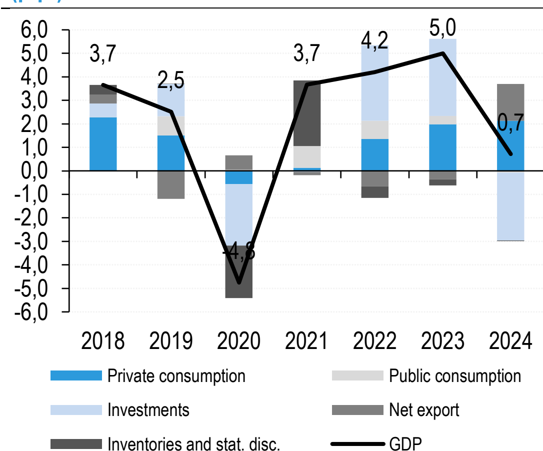
After the global pandemic, the Slovak economy is set to gradually recover from the recession and reach its potential in 2023. Slovakia's GDP will grow by 3.7% in 2021, when its dynamics will be dampened by the third wave of the pandemic. Even if, thanks to vaccination, the impacts of the third wave will be milder compared to late 2020, the labour market recovery will be interrupted and the economy will remain subdued for a longer period of time. In the short term, the economy will also be affected by the mismatch between strong global demand for goods and insufficient supply. This will result in temporary inflationary pressures and occasional interruptions in production. After the third wave of the pandemic, GDP will grow by 4.2% in 2022, boosted by a recovery in private consumption and, in particular, investment. The amount of resources from the EU Recovery Plan and other EU funds will reach historic levels and will be the dominant driver of economic growth in the next two years. This will lead to a recovery in job creation, allowing employment to catch up with much of the crisis downturn.

I.1. Macroeconomic forecast[2]

Slovakia's GDP will partially recover and grow by 3.7% in 2021 after the economic downturn due to the global pandemic. The measures eased after the second wave have translated into higher household consumption, but the economy will remain undercooled. **Year-end economic recovery will be dampened by the third wave of pandemic**. The expectation is that, thanks to vaccination, the impact of the third wave will be milder than in the previous two waves. The third wave will slow down hiring in the second half of this year, so there will still be 66,000 fewer employees on average for the whole year, relative to 2019. **Exports will be hindered by the lack of inputs in industrial production.** Global demand for goods will remain high and supply will not be able to satiate it. This will result in increasing inflationary pressures and occasional interruptions in production.

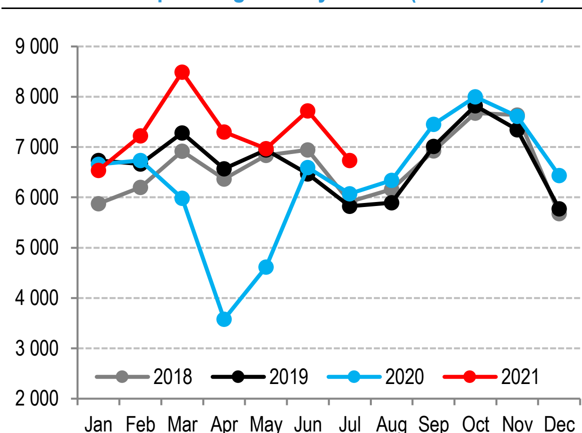
GDP growth will reach 4.2% in 2022, driven mainly by investment. The pandemic will fade at the beginning of the year, uncertainty will decrease and companies will start investing again. As the end of the third programming period approaches, the draw-down of EU funds will start to accelerate. To these resources will be added the draw-down from the EU Recovery Plan. Total investment in the economy will thus rise by almost 17% YoY. This will contribute not only to less undercooling of the Slovak economy, but also to an acceleration of potential formation of the Slovak economy in the years to come.

CHART 1 – Contributions to GDP growth - forecast (p.p.)



Source: Ministry of Finance of the Slovak Republic

CHART 2 – Export of goods by month (EUR million)



Source: Statistical Office of the Slovak Republic

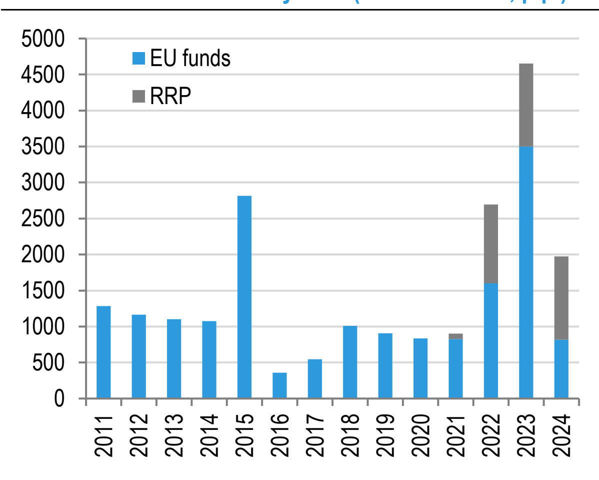
[2] The time series of expected GDP levels for 2021 to 2024 is based on the revised GDP data for 2020 sent to Eurostat in the autumn notification and recalculated by chaining the nominal YoY growth rates from the September forecast of the Committee for Macroeconomic Forecasts. These forecasts are also used for other indicators expressed as a ratio of GDP. The forecast includes an expectation of a reduction of the structural general government deficit by 1% of GDP between 2023 and 2024.

Once the third wave has passed, the labour market will recover. We expect the economy and employment to start growing more strongly in early 2022, once the pandemic has faded. For the whole of 2022, the labour market will add around 18,000 jobs, mainly in the service sector, which has been hit the hardest. The unemployment rate will start to fall gradually and should reach an average of 6.7% in 2022. The subsequent more significant fall in the number of unemployed will be supported by investment from the EU Recovery Plan.

Price growth will exceed 4 per cent in 2022. The recovery of global demand, higher prices of emission permits, as well as other global factors have sharply raised the prices of energy futures. This will lead to an increase in regulated prices in 2022 and 2023. We expect the rise in raw material prices to ease in the second half of next year and input prices to stabilise. Demand-pull inflation will also be stable, as employment will only gradually return to pre-crisis levels. In 2022 and 2023, prices will also reflect the approved further increase in the excise tax on tobacco products.

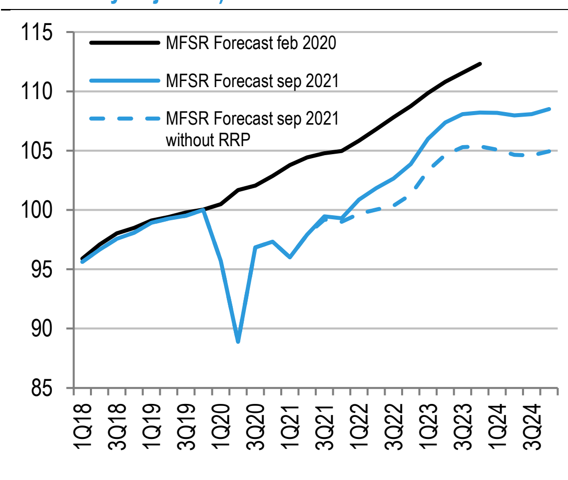
Nominal wages will continue to rise faster than prices as the economic recovery continues. The average nominal wage will increase by 5.4 % in 2021. Wage levels will be largely influenced by the low comparative base of 2020, but also by pandemic waves. High morbidity increases the number of sick leave and care of a family member recipients, which is reflected in lower wages paid and reported average wages.[3] In 2022, higher price growth will be partly reflected in nominal wages, which will increase by 5.5 % and real wages (adjusted for inflation) will thus rise by 1.3 %. Average wages will continue to grow at a steady pace in the coming years as the economy recovers and jobs are created.

CHART 3 – Estimated realisation of investments from EU funds and the Recovery Plan (in million euro, p.p.)



Source: Ministry of Finance of the Slovak Republic

CHART 4 – Real GDP forecast (4Q2019 index=100, seasonally adjusted)

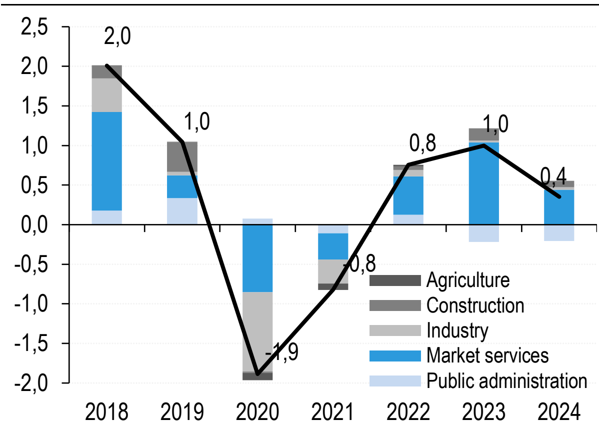


Source: Ministry of Finance of the Slovak Republic

In 2023, economic growth will accelerate to 5% with the impact of EU funds from the ending programming period, similar to 2015. This acceleration will mean a slight overheating of the economy and a further recovery of the labour market. Subsequently, the economy will slow down in 2024 as we expect the draw-down of resources from the new fourth programming period to be only gradual.

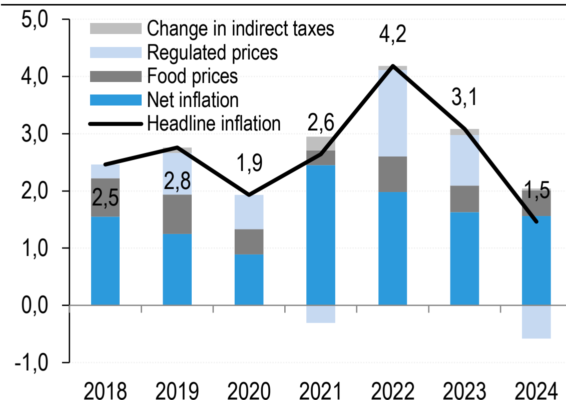
3 Sickness benefits are not included in wages, but recipients are still treated as employed. This then reduces the reported average wage of employees.

CHART 5 - Sectoral contributions to employment growth (p.p.)



Source: Ministry of Finance of the Slovak Republic

CHART 6 - Contributions to inflation (p.p.)



Source: Ministry of Finance of the Slovak Republic

The forecast of the Ministry of Finance of the Slovak Republic is more pessimistic compared to both the spring and summer forecasts of the EC [4]. The main reason is that the September forecast of the Ministry of Finance of the Slovak Republic reflects the impact of the incoming third wave of the pandemic. The Ministry of Finance of the Slovak Republic also foresees faster price growth and shortages of components in industry, which are factors dampening household consumption and exports. For this reason, the output gap estimate is also below the EC estimate and the economy is thus, according to the Ministry of Finance of the Slovak Republic, more undercooled.

TABLE 1 – Comparison of European Commission and Ministry of Finance forecasts

Indicator (% growth unless otherwise stated		2021	2022
Real GDP	Forecast of EC (spring)	4.8	5.2
	Forecast of EC (summer)	4.9	5.3
	Forecast of Ministry of Finance of the Slovak Republic (sept)	3.7	4,2
Private consumption	Forecast of EC (spring)	0.8	5.2
	Forecast of Ministry of Finance of the Slovak Republic (sept)	0,2	2.4
Public consumption	Forecast of EC (spring)	2.5	-0.2
	Forecast of Ministry of Finance of the Slovak Republic (sept)	4.9	4.1
Investments total	Forecast of EC (spring)	8.6	12.5
	Forecast of Ministry of Finance of the Slovak Republic (sept)	-0.3	16.7
Export of goods and services	Forecast of EC (spring)	12.2	5.3
	Forecast of Ministry of Finance of the Slovak Republic (sept)	10.5	3.1
Import of goods and services	Forecast of EC (spring)	10.9	5.6
	Forecast of Ministry of Finance of the Slovak Republic (sept)	10.9	3.9
Inflation (HICP)	Forecast of EC (spring)	1.5	1.9
	Forecast of EC (summer)	2.1	2.2
	Forecast of Ministry of Finance of the Slovak Republic (sept)	2.3	4.0
Employment (ESA)	Forecast of EC (spring)	-0.6	0.8

[4] The comparison of the forecast of the Ministry of Finance of the Slovak Republic with the EC forecast is based on the requirement of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

	Forecast of Ministry of Finance of the Slovak Republic (sept)	-0.8	0.8
Output gap (% of pot. GDP)	Forecast of EC (spring)	-1.4	0.8
	Forecast of Ministry of Finance of the Slovak Republic (sept)	-1.7	-0.4

Source: Ministry of Finance of the Slovak Republic

BOX 1 External environment assumptions

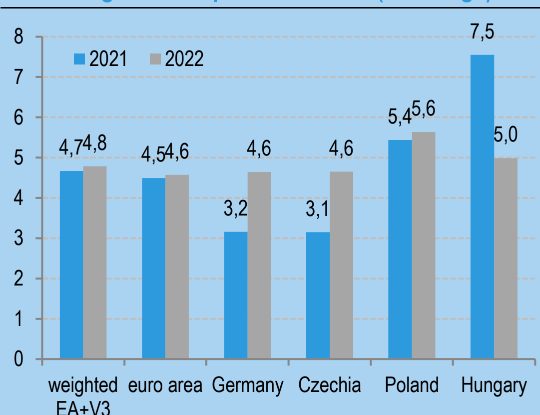
At the end of 2020, the euro area economy plunged into a recession triggered by the pandemic and related measures. Although the economic costs of the second pandemic wave were milder for individual countries compared to the first wave, the slowdown carried over into the first quarter of 2021, when most euro area countries declined slightly. The spring restrictions release brought about an economic recovery in the second quarter, when services joined relatively dynamic global trade and strong industrial production. While the summer season boosted growth in hotel services, restaurants and tourism, the construction sector did not manage to recover in the first half of the year. Economic development in the coming period will largely depend on the course of the autumn wave of the pandemic, which is expected to be dominated by the more infectious delta variant of the COVID-19 virus. Thanks to vaccination, however, this pandemic wave should be milder.

Rising energy prices coupled with more expensive fuels, a mismatch between strong demand for goods and insufficient supply of inputs, are creating strong temporary inflationary pressures. As the higher inflation is driven by supply-side factors rather than the result of overheating economies, the rise in prices is expected to be temporary. In 2022, however, prices are likely to remain at high levels. The stronger inflation is the result of more expensive input materials, which, together with a shortage of inputs, create bottlenecks that have been reflected in a decline in finished products.

The pandemic wave of autumn 2020 also hit the V3 countries, but the negative economic consequences were milder compared to the large euro area countries. Drawdown from the Recovery and Resilience Plan in the second half of 2021 should also help (CHART 7). Individual economies will also be supported by drawing of EU funds in 2022.

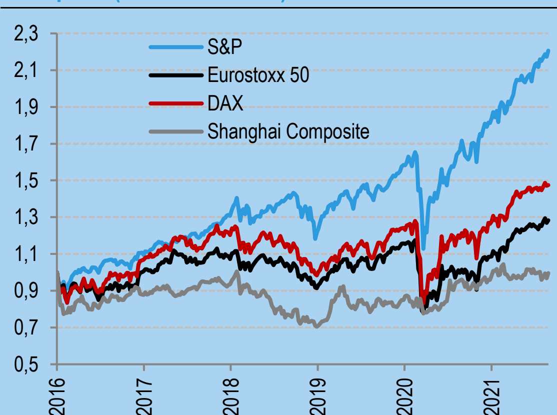
Stock indices continued to rise over the summer, surpassing all-time highs (CHART 8). Interest in the stock is supported by positive sentiment regarding vaccination rates in major economies and associated lower fears of another pandemic wave. At the same time, investors are counting on continued monetary and fiscal stimulus, which is contributing to a rise in equity markets as well as a fall in government bond yields. The price of Brent crude oil reflects higher energy prices and emission allowances. Over the forecast horizon, the commodity price should stabilise at USD 60/bl.

CHART 7 – GDP of Slovakia's trading partners according to the Sept. IFP forecast (% change)



Source: IFP

CHART 8 - Stock indices recovered quickly after the sharp fall (15 Jan 2016 = 1)



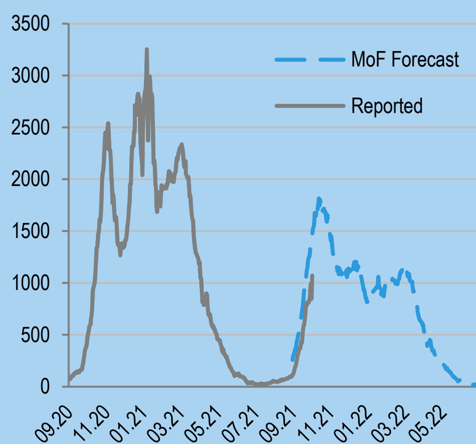
Source: IFP, Bloomberg

BOX 2 - Pandemic projections in Slovakia

The third wave will bring fewer infections than the second wave. The third wave is expected to peak in mid-October, when the number of new cases is expected to approach 1800. Subsequently, the third wave stabilizes at roughly 1,000 infected. Due to the seasonality of the virus, the number of people testing positive will remain at similar levels until around mid-March, when a drop in incidence will occur with the gradual warming (CHART 9). The average number of hospital admissions is estimated at around 500 in the period from September to the end of the year, with around 700 admissions at the peak of the third wave. The modelled epidemic scenario assumes a full vaccination rate of 51% (currently 42.6%). The impact of the Covid automaton measures (version as of 10 August), which are activated based on the incidence trend in each district, is also included. So far, the actual evolution of new cases is in line with the assumptions in the forecast, while the evolution of hospital admissions is higher.

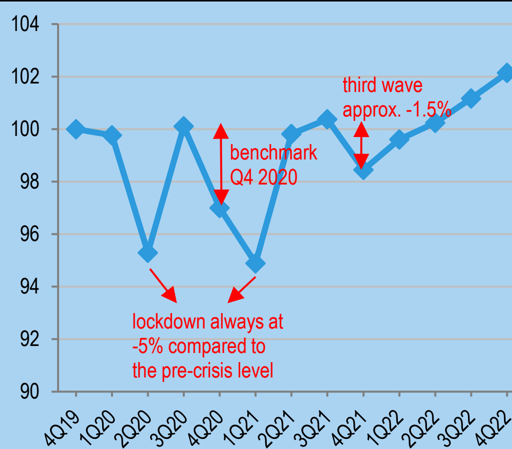
The third wave will hit the economy more moderately than the previous ones. The impact of the third wave of the pandemic on the economy is based on assumptions of the stringency of regional measures based on the Covid automaton. In addition to restriction measures, it also takes into account varying vaccination rates, the cumulative number of people tested positive (as an indicator for those with recovered disease), and the economic importance of the region as measured by the share of wages paid in the economy. The impact of the third wave pulls down real consumption by 0.23% of GDP in Q4 (CHART 10). The pandemic will hit the economy less than in the second wave, mainly due to vaccination and the regional nature of the measures. However, in a significantly worse epidemic scenario, economic developments will be closer to the alternative scenario with lockdown. The latter contemplates a fall in household consumption of 0.45% of GDP, which is about 2/3 of the impact of previous lockdowns.

CHART 9 – Reported and forecasted new COVID-19 cases (7-day moving average)



Source: OWID, IFP

CHART 10 – Impact of the third wave on household consumption (constant prices, index 4Q2019=100, seasonally adjusted)



Source: Statistical Office of the Slovak Republic, IFP

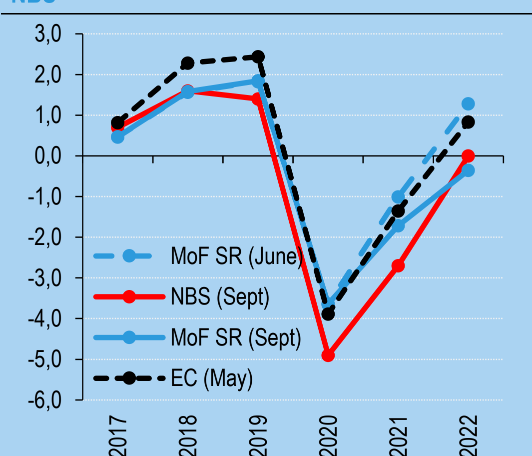
BOX 3 – Output gap estimation

The third wave of the pandemic will slow down the economic recovery and the economy will remain 1.7% below its potential. In the coming year, the economy, driven by Recovery Plan investments, will surpass pre-crisis levels and the output gap will close almost completely to -0.4% of potential. This estimate is based on the national methodology of the Ministry of Finance of the Slovak Republic (MoF SR). The MoF

SR's estimate is not significantly different from the Commission's forecast of May 2021. The national methodology is used in this document to estimate the cyclical component required for computing the structural balance of public finances.

Based on the MoF SR's national methodology, the output gap will reach -1.7% of potential GDP in 2021. Component shortages coupled with the third wave of the pandemic will slow down economic growth this year, resulting in a milder output gap closing than expected in June. In the year ahead, the economy will be significantly boosted by investments from the Recovery Plan, which will increase productive capacity mainly through capital stock and higher factor productivity. Together with recovered demand and employment after the pandemic, the output gap will narrow to -0.4% of potential GDP in 2022. The recovery plan and the drawdown of EU funds in 2023 will stimulate growth in both the demand and supply side of the economy, resulting in a positive output gap, which will, however, widen again in 2024 due to the end of the EU funds programming period.

CHART 11 - Output gap (% pot. GDP): EC, MoF, NBS



Source: MoF SR, NBS, AMECO

TABLE 2 – Output gap and factor contributions to potential growth – MoF approach

	Output gap (% pot. GDP)	Pot. GDP (growth, %)	TFP*	Capital stock	Labour
2017	0.5	2.1	1.0	0.5	0.6
2018	1.6	2.5	1.3	0.6	0.5
2019	1.8	2.2	1.1	0.7	0.4
2020	-3.6	0.7	0.3	0.7	-0.3
2021F	-1.7	1.6	1.3	0.4	-0.1
2022F	-0.4	2.8	1.9	0.6	0.3
2023F	1.1	3.5	2.3	1.1	0.2
2024F	-1.4	3.2	1.9	1.1	0.1

* Total factor productivity

Source: MoF SR

The difference in output gap estimates between the Commission's approach and the MoF SR's approach (national methodology) is due to different forecast horizons and different total factor productivity (TFP). While the Commission estimates the output gap over the horizon of next two years, the estimate in the MF SR's forecast covers four years. The Commission's approach is based on trends and on variable filtering, and the extended forecast horizon may thus lead to differences in an output gap estimate covering a shorter term even though the input macroeconomic forecast for the years covered remains unchanged. Another difference lies in the adjustment of TFP for the impact of Recovery Plan investments, which we estimated based on panel data on 34 countries (EU, UK, US, Iceland, Norway, Switzerland, Canada and Japan) over the period 2010 to 2019. An increase in the growth rate of investment of 1 p.p. is associated with higher TFP growth of 0.061 p.p. We then adjusted total factor productivity growth based on the amount of planned investment in each year and the estimated impact on TFP.

The MoF SR's potential output estimate also takes account of the trend in the output gap which influences the dynamics of the domestic inflation, balance of trade and labour market. The resulting GDP breakdown is, therefore, based not only on the structural component, but on the cyclical component estimate as well. The Commission's approach disregards the effect of the cyclical component on the economy, which may lead to a less accurate output gap estimate. As an example, the decelerated growth of consumer prices and a positive balance of trade (indicating an excess of foreign demand over domestic demand) in recent years indicate only low overheating of the Slovak economy.

I.2. Alternative scenarios for the macroeconomic forecast

To better inform the public debate and policy-making in Slovakia, alternative scenarios are used, modelling the economic development in the event of a lockdown and low drawdown of EU funds. Despite high vaccination rates, with the advent of the third wave of the pandemic, the need for further lockdowns has been discussed in some countries, such as Israel. In the first alternative scenario, the impact of a possible lockdown during the third wave on the Slovak economy was modelled. Introducing stricter measures in the form of a lockdown later this year would reduce GDP by an additional 0.3 p.p. The main factor supporting economic growth in 2023 will be the final drawdown of EU funds from the ending programming period. The second alternative scenario models a situation of lower drawdown at 70% and its impact on the economy. A lower drawdown of 70% would reduce growth by 1.7 percentage points in 2023.

Scenario 1: Restricting the economy again

In the first scenario, we simulate the impact of the reintroduction of lockdown, i.e. the tightening of anti-pandemic measures beyond the COVID automaton in place as of September 2021. The scenario assumes a worse third wave of pandemic (peak of the third wave during November with 3,600 new cases and 2,800 hospitalizations) and a lockdown for two months in the fourth quarter, which will mean restricting the functioning of shops and services to sales of basic necessities only, as well as the closure of schools, restaurants, hotels, and restriction of movement. The economic impacts of the lockdown are estimated based on the shortfall in household consumption in previous pandemic waves.

Tightening measures would dampen the economy's performance in the fourth quarter and GDP would grow by 3.4% year-on-year, 0.3 p.p. less than in the baseline scenario of the forecast Ministry of Finance of the Slovak Republic. The scenario assumes that the pandemic will not completely disappear after the New Year, but its intensity and impacts on the economy will not be substantial, leading to a rapid return of the economy to its original trajectory. Employment would fall by 17,000 people in the last quarter of this year compared to the forecast. The labour market would recover during the first half of 2022. Tax revenues will fall mainly in late 2021 due to a shortfall in consumption-linked revenues.

TABLE 3 – Restricting the economy again

Cumulative change of growth of individual variables in p.p.
Change in tax revenues is shown as a difference from the baseline scenario, gross general government debt is shown as a cumulative change based on change in tax revenues

	Real GDP	CPI	Output gap	Private consumption	Public consumption	Real investment	Real export	Employment	Nominal wages	Tax revenues (% GDP)	GG debt (% GDP)
2021	-0.3	0.2	-0.3	-0.5	0.0	-0.3	0.0	-0.2	-0.2	-0.2	0.3
2022	-0.1	0.4	-0.4	0.0	0.4	-0.3	-0.1	0.0	0.0	-0.1	0.2
2023	-0.1	0.4	-0.4	-0.1	0.3	-0.2	-0.1	0.0	-0.1	-0.1	0.3
2024	-0.1	0.4	-0.5	-0.2	0.3	-0.2	-0.1	-0.1	-0.1	-0.1	0.4

Source: Ministry of Finance of the Slovak Republic

Scenario 2: Lower drawdown of EU funds

In the second scenario, we model the potential effects of reduced EU drawdown. The baseline scenario of the forecast, in line with the majority expectations of the members of the Macroeconomic Forecast Committee, assumes that almost the entire available EU resource envelope (amounting to more than EUR 11 billion) will be drawn down by 2024. Most of this is from the EU funds programming period ending in 2023. To illustrate the importance of a successful completion of the resources of the current programming period for economic development, the second scenario models a situation in which the drawdown reaches a level of only 70% of the available volume. This corresponds to the minimum value from the survey of Committee members. In this case, the amount of resources is lower by EUR 2.5 billion until 2024, with the differences being most pronounced in 2023, when the drawdown is lower by up to EUR 2 billion.

The lower drawdown of resources would affect economic development in 2021 and 2022 only very slightly. **However, GDP would only grow by 3.3% in 2023, which is 1.7 p.p. less than in the baseline forecast.** Optically, the higher growth in 2024 would be a result of the base effect from the previous year, but the level of GDP would still be lower than in the forecast. The labour market would react to the shortfall in resources with a delay, and the biggest differences would only become apparent in 2024, when 22,000 fewer people would be employed compared to the development with full drawdown of EU resources. Tax revenues respond with a shortfall of around 0.4 to 0.6% of GDP from 2023.

TABLE 4 – Slower drawdown of EU funds

Cumulative change of growth of individual variables in p.p.
Change in tax revenues is shown as a difference from the baseline scenario, gross general government debt is shown as a cumulative change based on change in tax revenues

	Real GDP	CPI	Output gap	Private consumption	Public consumption	Real investment	Real export	Employment	Nominal wages	Tax revenues (% GDP)	GG debt (% GDP)
2021	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2022	-0.1	0.0	-0.1	0.0	-0.1	-0.6	0.0	0.0	-0.1	0.0	0.1
2023	-1.8	-0.3	-1.8	-0.7	-2.2	-9.2	0.0	-0.3	-1.3	-0.6	1.9
2024	-0.6	-0.6	-2.1	-0.4	-0.8	-3.8	0.0	-0.9	-0.3	-0.4	1.7

Source: Ministry of Finance of the Slovak Republic

II. Budgetary objectives

The deficit will reach up to 7.9 % of GDP this year. Tackling the impact of the COVID-19 pandemic remains a priority in 2021. The main contributor to the increase in the deficit is the increase in funds to support the economy during the pandemic, for which the initial flat budget provision of billion was insufficient. Beyond the direct impacts caused by the outbreak of the COVID-19 pandemic, the main contributors to the increase in the deficit are the additional financing of operations and capital expenditure of transport companies under the Ministry of Transport and Construction. On the contrary, the impact on deficit is significantly reduced compared to budget assumptions, mainly due to higher tax revenues, mostly because the corporate tax yields have declined only marginally despite the pandemic. From 2022 onwards, a more stable situation is expected in both the health sector and the economy. This is matched by a lower provision for anti-pandemic support measures compared to last year's expenditure of 0.7 % of GDP. Adjusting for pandemic-related expenditures,, the budget foresees an approximately neutral fiscal policy. The general government deficit will thus be reduced to 4.9 % of GDP next year. From 2022, new funding from the Recovery Fund and the ending of EU funds programming period will take over the task of supporting the economy. The prudent withdrawal of the fiscal stimulus is also in line with the recommendations international institutions. From 2023 onwards, in the context of the historically highest level of public debt and long-term sustainability risks, the plan is to continue the stabilisiation of public finances by reducing the structural deficit by 1 % of GDP yearly. This will bring the headline deficit below the excessive deficit threshold of 3 % of GDP already in 2023. Without an amendment to the constitutional Fiscal Responsibility Act, it is necessary to target an already balanced budget for 2024, which would imply a significantly restrictive fiscal policy.

II.1. Current developments in public finances in 2021

Based on current developments marked by the COVID-19 pandemic, the general government deficit will rise to 7.9 % of GDP in 2021 from 5.5 % of GDP recorded last year. Compared to the budget forecasts with a projected deficit of 7.4 % of GDP, expenditure on pandemic COVID-19 has mainly increased (an increase of 2.1 p.p. of GDP over and above the billion euro provision included in the approved budget). The significant increase in expenditure needed to combat the pandemic has led to the need for an amendment to the State Budget Act for this year. The deficit is mainly positively affected by higher-than-budgeted tax revenues (1.4 % of GDP) and lower Social Insurance Agency expenditures (0.3 % of GDP).

CHART 12 – Implementation of the approved budget - Differences on the main headings (contributions in million euro, ESA2010)

Headline balance - Budget 2021: -7091 (-7,41 % of GDP)
Expendutere measures in fight COVID 19: -1 997
Higher financing of companies under MDV SR by state budget: -223
Chosen expansionary measures of the government: -94
Net impact of EU corrections and higher levy on EU: -41
Higher tax revenues: 1343
Lower Social insurence expenditures (especially pensions and health…: 287
Lower co-financing of EU funds (excluding COVID-19): 159
Others: -63
Headline balance - Estimate 2021: -7718 (-7,92 % GDP)
Impact unrelated to covid 1369 mil.

(+) / (-)means a positive/negative effect on the general government balance
Source: Ministry of Finance of the Slovak Republic

Developments in public finances caused by the coronavirus

For the fight against the COVID-19 pandemic, deficit-impacting expenditure is expected to be 2.1 p.p. of GDP higher this year than foreseen in the budget when the reserve for this purpose was made (1.1 % of GDP)[5]. The total cost of the measures taken (with an impact on the ESA2010 accrual deficit) by the government in response to the coronavirus is estimated at 3.1 % of GDP by the end of the year.[6] (**BOX 4** and **Annex 7**). In 2021, the government expanded employment support through an increase in the limits that can be received per job. Sickness benefits, as well as the sickness allowance for a family member, were increased to replace the net salary of employees. The re-extension of unemployment benefit entitlements during March-May was to replace income for people who still could not find a job due to the worsening labour market situation. New schemes have also been created in 2021 to support the most affected sectors. Targeted financial assistance was mainly directed at supporting workers and entrepreneurs in culture and primary art schools. Significant subsidies have also flowed to support gastronomy and tourism. A scheme to compensate for road transport losses has also been set up. A one-off allowance of EUR 333 was paid to families with children who found themselves in material need as a result of the situation with COVID-19. Other families with children will have their child benefit topped up to EUR 100 during October.

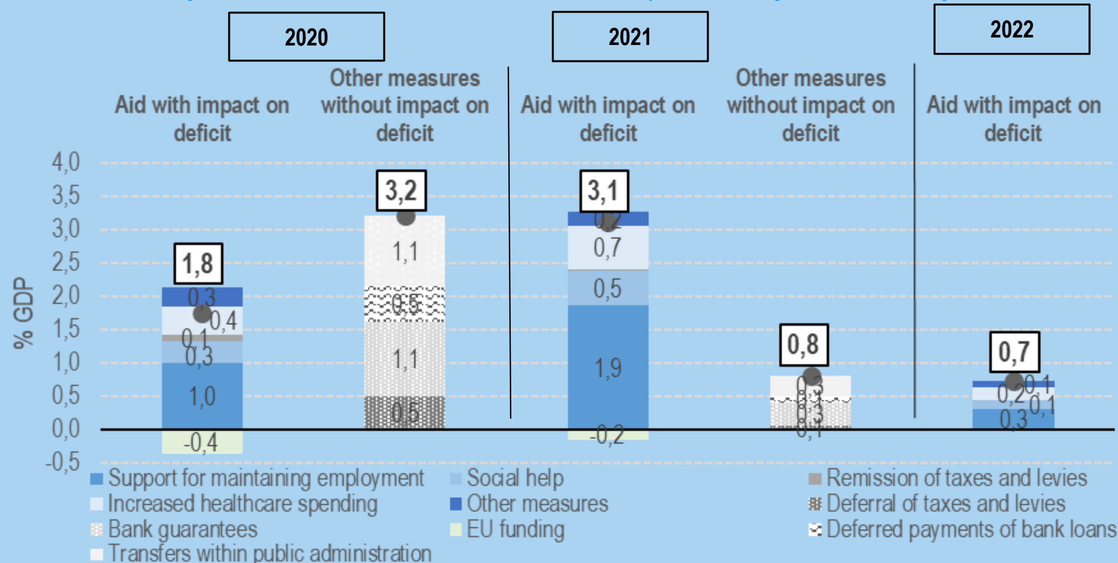
BOX 4 – Summary of measures taken to combat coronavirus in cash terms

Measures taken to combat the coronavirus are in the form of direct aid with a direct impact on the deficit and no direct impact on the deficit, including tax and social security contributions deferrals, bank guarantees for business loans and transfers within the general government. The deferral of taxes and social security contributions should help firms with liquidity and its impact on the accrual deficit will be negligible. In the medium term, the cash impact is also minimised [7]. Loan guarantees, which also help to tide over an adverse period, have an impact on the deficit and debt only if a part of the debtors stop repaying the loans granted or, in the case of standardised guarantees according to the ESA2010 methodology, it is necessary to take into account the level of default risk on an accrual basis[8]. Transfers within general government have an impact on the accrual deficit only if the entity uses the transfer received on expenditure side[9]. Deferment of loan repayments is carried out by commercial banks in agreement with the government, thereby helping household liquidity without affecting the government's economic deficit.

Deficit-impacting aid in the current year is expected to be almost double that of last year. This year on year disparity is due, in addition to the increase and expansion of aid described above, to the recording of the so-called Kurzarbeit, as aid for the last months of 2020 is also included in 2021[10]. Another factor is the volume of reimbursements from EU funds, while in 2020 it was 0.4 % of GDP, this year it is expected to be only about half. Moreover, in the current year, there is also a sufficient provision for a more significant third wave.

[5] A provision of EUR 1.041 million was made for this purpose when the budget was established.
[6] This estimate includes the financing of part of the expenditure from EU funds. This is a financing of EUR 138 million (0.2% of GDP), this refinancing has no impact on the deficit.
[7] On the social contributions side, we assume an accrual impact of EUR -3.6 million in 2020 due to the non-payment of deferred contributions in selected at-risk sectors. In 2021, we expect an impact on the accrual balance of EUR -5.5 million.
[8] The potential downside risk is estimated at 47 million from guarantees issued in 2020 (of which 25 million are already included in the deficit in the EUROSTAT autumn notification), or 32 million from guarantees issued in 2021.
[9] For example, the Social Insurance Agency receives a transfer from the National Social Fund, which is largely used to cover pandemic care of a family member and sick leave.
[10] Expenditure is recorded on the basis of when it is paid, not on the basis of when the entitlement to aid is incurred.

CHART 13 – Summary of measures taken to combat coronavirus (estimated by the end of the year, in % of GDP)



Source: Ministry of Finance of the Slovak Republic

** The impact of employment support on the general government deficit in 2020 does not take into account Eurostat's autumn notification*
*** For guarantees, the amount of loans guaranteed is reported, not the impact on the accrual general government deficit. Same for tax and secial security contributions deferrals.*

Other factors outside the coronavirus

In addition to a faster economic recovery, the budget's tax revenues will contribute to an improvement in the economy at 1.4 % of GDP. The main factor is the increase in tax revenues, in particular the positive surprise on corporate income tax of 0.8 % of GDP. The usually pro-cyclical corporate tax revenues have fallen only marginally despite the pandemic, in contrast to the experience during the global financial crisis, when there was a YoY fall in corporate tax of about 24 %. Positive surprise mainly arises from developments in selected sectors of the economysuch as water and energy supply, finance, retail and wholesale , which have done well despite the crisis.. Positive developments are also foreseen for value added tax, where the budget is expected to be exceeded by 0.4 % of GDP, thanks to an increase in collectionefficiency, which was not foreseen in the budget forecasts. Higher personal income tax as well as social security contributions (together accounting for 0.3% of GDP) are mainly driven by more positive developments in the labour market this year. In particular, wage growth will be stronger, supported by an increase in new jobs in the second half of the year.

Expenditures of the Social Insurance Agency, which is not directly related to the impact of the pandemic, is 0.3 % of GDP lower than budget. Expenditures are expected to be lower than budgeted mainly on pension benefits (0.2 % of GDP) and non-pandemic sickness insurance benefits (0.1 % of GDP). The decrease in pension benefits compared to the budget is due to a higher than expected number and a higher than expected average benefit of lapsed pensions (indirect impact of COVID-19). Another reason is lower average amount of newly granted pensions[11]. Expenditure on standard sickness and nursing benefits declines due to higher uptake of pandemic sick leave and care of a family member benefits[12]. Expenditure on other sickness benefits is also decreasing due to lower drawdown of maternity benefits by fathers or a slower take-up of pregnancy benefits by recipients.

[11] And probably insufficient consideration of the YoY spending shift from 2021 to 2020. Due to the greater number of due dates falling on public holidays at the beginning of 2021, EUR 71 million more was paid out than standard already in 2020. Thus, the total number of payout dates in 2020 was 145, while in 2021 it was only 143. In a standard year, 144 maturities are paid out in the current year, with excess transfers occurring every 5-6 years. This effect may not have been fully taken into account in the 2021 budget. At the same time, the expected expenditure in 2020, which was the basis for 2021, has been significantly increased.

[12] The fall in expenditure on standard sickness benefits is also affected by the increase in expenditure on pandemic benefits (sick leave and care of a family member benefits), which are shown in the pandemic aid settlement. People who would also fall ill with another illness during the current year and subsequently receive standard sick leave or care of a family member are thus shown in the pandemic expenditure and standard expenditure on other sick pay will therefore fall.

Unemployment benefit expenditure increases slightly compared to the budget due to the deterioration of the labour market caused by the pandemic.

Expenditure related to the European budget also reduces the expected deficit compared to the budget. Weaker drawdown of co-financing of European projects contributes more than 0.2 p.p. to GDP. A small saving is also expected on the EU levy. Conversely, the overall positive impact is slightly offset by corrections[13] from irregularities in the drawdown of EU funds.

State budget financing of selected companies under the Ministry of Transport contributes to the higher-than-budgeted deficit by 0.2 p.p. GDP[14]. The Railways of the Slovak Republic are increasing expenditure mainly due to the operation and renewal of the railway network. The additional financing of the Railways of the Slovak Republic is intened to coverthe expenses of the increased need for repairs of rolling stock and an increase in transport performance.

Other negative effects due to government decisions have a negative impact on the deficit of 0.1 % of GDP. This concerns in particular the supplementary financing of the Prison and Court Guard Service under the Ministry of Justice; severance pay for members of the police force as well as the supplementary financing of regional development under the Ministry of Investment and Regional Development.

Positive and negative risks

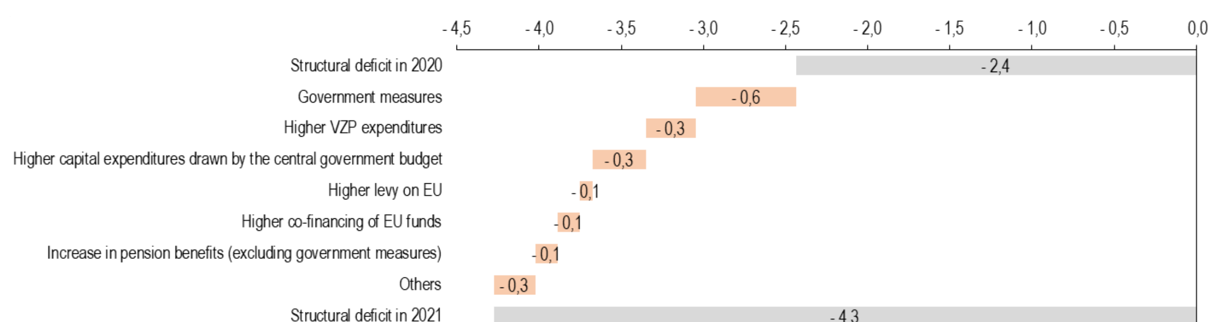
Increased uncertainty about the evolution of the economy in this year is reflected in higher volatility in headline deficit estimates. A possible third wave, which would require a lockdown of the economy, could have an estimated negative impact on revenues of 0.2 % of GDP. For 2021, the already available data for expenditures execution points to an positive fiscal risk, in particular concerning capital expenditure of the state budget and at the level of local governments.

II.2. Budgetary objectives for 2022 to 2024

In 2021, the structural deficit continues to grow strongly by 1.8 p.p. to 4.3 % of GDP. Given the negative output gap, the fiscal expansion in 2020 and 2021 has a stabilising effect on the economy. The structural deficit is increasing this year, mainly due to the government's new permanent measures at 0.6 % of GDP not related to pandemic. These include the abolition of supplementary payments for medicines for selected groups, the introduction of a pregnancy allowance and earlier retirement for selected of women. The government also increased spending on first-class roads and support for regional education. On the revenue side, the structural deficit is mainly increased due to the abolition of the bank levy, changes in the taxation of motor vehicles and the increase in the tax bonus. These measures were slightly offset by an increase in the excise tax rates on tobacco, binding of part of spending on wages and goods and services in the state budget and a freeze in the growth of the minimum income. If the forecasts for the expected reality by the end of the year are confirmed, higher government investment of 0.3 % of GDP may also contribute to the expansion. Beyond the effects of the pandemic, rising public health insurance expenditure also contributes to a 0.3 p.p. increase in the structural deficit[15]. Beyond the above changes, there are also impacts on the structural balance that are less under the direct control of the government. These include in particular the rising contribution to the European Union due to Brexit (0.1% of GDP), the increase in spending on co-financing EU funds (0.1 % of GDP) and the growing number of pension beneficiaries (0.1 % of GDP). Other impacts include, for example, growth in current spending by local government.

[13] The corrections are net of the revenue of the paying unit.
[14] It concerns the co-financing of ŽSSK (Slovak Railway Company) and The Railways Of The Slovak Republic.
[15] The relatively high growth is mainly due to the linking of healthcare wages to the growth of the average wage in the economy two years ago at 7.8%, which is well above potential GDP growth. Wages account for more than a third of health spending.

CHART 14 – Factors leading to an increase in the structural deficit between 2020 and 2021 as % of GDP



Source: Ministry of Finance of the Slovak Republic

For next year, fiscal policy is planned to be broadly neutral, as anchored in the Stability Programme. The budget objectives a nominal deficit of 4.9 % of GDP for 2022, as both the health sector and the economy are expected to be more stable next year. This will be reflected in a lower provision for anti-pandemic measures (0.7 % of GDP). The provision is primarily to cover the catch-up of First Aid++ expenditure for claims from the end of 2021, potential costs from a more intense third wave of the pandemic, and contracted vaccines and other pandemic-related expenditure (**BOX 4**). The plan to slightly reduce the structural balance in 2022 offsets the impact of the additonal expansionary measures in 2021 taken since the approval of the Stability Programme[16]. However, there is considerable uncertainty around the current deficit estimate in 2021 and a neutral to slightly expansionary fiscal policy could be recorded if a lower general government deficit is achieved. **From 2023 onwards, consolidation is planned at 1 % of GDP per year, in line with the Stability Programme's ambition, with the aim of gradually bringing public finances below the excessive deficit limit**. According to the European Commision's communication, the standard fiscal rules of the Stability and Growth Pact are to be applied again in 2022, with implications for the preparation of the 2023 budget. Based on a headline deficit above 3 % of GDP, Slovakia is likely to enter the excessive deficit procedure (EDP), where the EC will determine the pace of consolidation for a return to the MTO. In the current Draft budgetary plan, the consolidation effort is set according to the requirements of the previous excessive deficit procedure[17]. The budgetary targets are based on year on year consolidation, whereby a 1 % structural consolidation corresponds to a headline deficit of 2.7 % of GDP in 2023 and 2.6 % of GDP in 2024, respectively[18]. Significant additional resources from the Recovery Plan and other EU funds will mitigate the adverse impact of consolidation on the economy.

Specific consolidation measures will be presented in the budget process next year. Achieving the headline objectives in 2023 and 2024 requires the specification of new consolidation measures of EUR 812 million and 768 million respectively compared to the budget as presented. At the same time, the budget for the horizon until 2024 already contemplates a reduction or dampening of expenditures of several public administration entities, such as NDS (National Motorway Company), The Railways Of The Slovak Republic, public colleges, local government and a zero growth of the wage package in the state budget (see the chapter NPC). Compared to the developments in the analytical scenario of unchanged policies, additional measures will need to be found in the budget to achieve these projected developments (see **TABLE 9**). The total volume of needed measures will therefore be higher.

TABLE 5 – Consolidation efforts (ESA 2010, % GDP)

	2019 S	2020 S	2021 OS	2022 Draft general government budget	2023 Draft general government budget	2024 Draft general government budget
Nominal balance - budgetary objective	**-1.3*** **	**-5.5*** **	**-7.9**	**-4.9**	**-2.7**	**-2.6 (0.0*)**
Cyclic component	0.7	-1.4	-0.7	-0.1	0.4	-0.5

[16] It is mainly about co-financing of The Railways Of The Slovak Republic and ZSSK (Slovak Railway Company). To a lesser extent, it also covers severance pay for members of the police force, supplementary funding for the Prison and Court Guard Service and regional development..

[17] More details on p. 42:https://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/communication_to_the_council/2010-06-15_be_cz_de_ie_es_fr_it_nl_at_pt_si_sk_communication_on_action_taken_en.pdf

[18] The targeted decline in the nominal balance in 2024 of only 0.1 pp of GDP, with a projected reduction of the structural balance of 1% of GDP, is based on a renewed undercooling of the economy caused by the end of the 3rd programming period of EU funds, when revenue growth will slow down.

One-off impacts	0.0	-1.7	-3.0	-0.7	0.0	0.0
Structural balance	**-2.0**	**-2.4**	**-4.3**	**-4.1**	**-3.1**	**-2.1 (0.5*)**
Consolidation effort	**-0.4**	**-0.4**	**-1.8**	**0.2**	**1.0**	**1.0 (3.6*)**
p. m. Structural balance excluding COVID measures in one-off effects		-4.0	-7.1	-4.8	-3.1	-2.1 (0.5*)
*p.m. measures needed to achieve budget objectives (EUR million)***					812	768 (3 815*)

** The objectives in brackets correspond to the draft sanctions of the current debt brake. In 2024, the current version of the debt brake already calls for a nominally balanced budget.*
*** Measures needed compared to the current fiscal framework of the general government budget, which already works with the assumption of austerity measures (e.g. it foresees a dampening of expenditures on several entities such as the NDS (National Motorway Company), The Railways Of The Slovak Republic or the public colleges). Realistically, it will be necessary to take measures that will be higher.*
**** According to data from the Statistical Office Of The Slovak Republic sent to the Eurostat notification to be published in the second half of October. Data is subject to change. The same approach is taken for the gross debt forecast.*

The planned consolidation can be significantly supported by the as yet unimplemented savings measures from the spending reviews and the review of tax expenditures. Expenditure reviews have identified savings measures with a total potential of EUR 2 billion (2.1 % of GDP) since 2017. Some of these have already been incorporated into the general government budget especially in the past[19]. The remainder, after additional analysis of the timeliness of the draft revisions, could form the basis for the necessary consolidation in future years. It is also important to look at the revenue side of the budget. For example, in the area of tax expenditures, by analogy with the expenditure review, there should be an ongoing evaluation of the justification and effectiveness of existing tax exemptions in terms of achieving their purpose.

Additional identification of savings can be achieved through ongoing spending envelope revisions. The continuation of reviews of public administration expenditure is also supported by legislation which makes it mandatory to review at least 50 % of public administration expenditure over a standard electoral period[20]. An alternative to incremental reviews by department or thematic area could be a comprehensive spending review). Comprehensive spending reviews do not necessarily assess all spending, but they can have the advantage of a cross-departmental approach and facilitate the reallocation of spending between areas by redirecting spending to priority areas. A comprehensive spending review should include, in particular, an update of identified but only partially implemented measures, an assessment of the spending policies of past governments, a reassessment of mandated spending, in particular parametric policies (e.g. entitlement and indexation of benefits), and a reassessment of optional government spending (e.g. investment aid to enterprises).

BOX 5 – The required pace of consolidation in the context of current and planned fiscal rules

The setting of the medium-term budgetary strategy takes place in the context of evolving European and national fiscal rules. However, on the basis of both, the requirement to reduce the deficit from 2023 towards a balanced budget can be expected.

European fiscal rules (Stability and Growth Pact)

Based on historical experience, it can be assumed that the European Commission will recommend Slovakia to reduce its structural deficit by 2 % of GDP by 2024. At the moment, it is not possible to conclude with certainty what consolidation efforts will be required by the European Commission in 2023 and 2024. Based on the recommendations following the previous crisis, the requirement to reduce the structural balance by 1 % of GDP from 2023 onwards is expected for 2010-2013, which is also foreseen in the draft budget.

Amendment to the Constitutional Fiscal Responsibility Act (including expenditure ceilings; *Amendment to UZoRZ on chart below*)

If the National Council of the Slovak Republic approves an amendment to the constitutional Fiscal Responsibility Act in the autumn, the required consolidation will probably be higher than 2 % of GDP by

[19] Measures with a potential of around EUR 1 billion have already been incorporated in the general government budget, of which around EUR 750 million are expected to materialise by 2023.
[20] The Ministry of Finance is required to submit a spending review so that, for four consecutive calendar years from the year in which the Manifesto of the Government is approved, there is a spending review of at least 50% of general government expenditure

2024 (excluding pension reform). The amendment, which also includes expenditure ceilings, calls for a 1 % of GDP improvement in long-term sustainability in times of high risks and 0.5 % of GDP in times of low long-term sustainability risks. Since long-term sustainability is currently at high risk, it would be necessary to reduce the structural balance by more than 2 % of GDP cumulatively over a 2-year period (without pension reform)[21]. Consolidation in this case is defined as concrete savings measures over and above the baseline scenario - i.e. the projected evolution set by the legislation[22]. However, the savings measures can also be replaced by pension reform or other reforms if they are recognised by the Fiscal Responsibility Council as improving long-term sustainability.

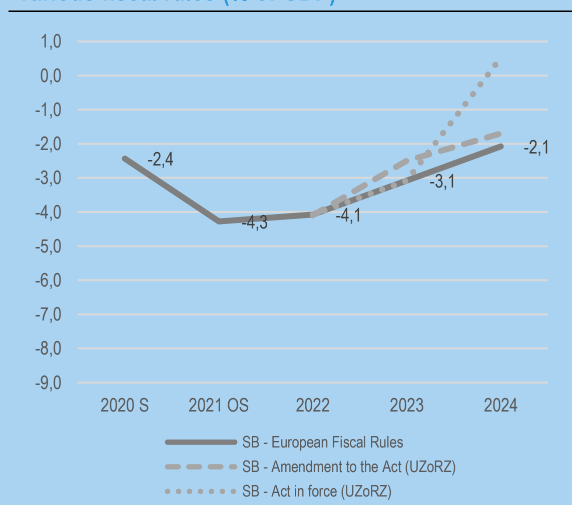
Fiscal responsibility act in force (Constitutional Amendment to the Constitutional Law on Budgetary Responsibility in force; *UZORZ on chart below*)

In the absence of changes to the debt brake, unprecedentedly severe sanctions will be triggered from 2023 to balance the budget by 2024, which would imply a sharp y-o-y consolidation of up to around 4 %. In particular, the requirement for a balanced budget or no growth in expenditure from 2024 onwards. At the same time, 3 % of the adjusted [23] state budget expenditure would have to be committed already in 2023 (for more details see BOX 6).

CHART 15 – Headline balance targets according to various fiscal rules (% of GDP)

Source: Ministry of Finance of the Slovak Republic

CHART 16 – Structural balance targets according to various fiscal rules (% of GDP)



Source: Ministry of Finance of the Slovak Republic

[21] According to the latest data from the most recent Long-Term Sustainability Report (April 2021), a reduction of the structural deficit by 2.4 p.p. would be needed.

[22] It is therefore not the usual measurement of consolidation through the YoY change in the structural balance. In this concept, only the effects of specific government measures on the evolution of public finances based on current legislation are quantified as consolidation. Thus, it is not possible to include reductions in the structural balance that result from previous legislation or from economic recovery (e.g. slower indexation of social benefits than the growth in economic output or the rapid recovery of the economy and incomes after the crisis).

[23] Total state budget expenditures approved by the state budget law for the respective budget year, less expenditures on state debt management, European Union funds, state budget funds for financing joint programmes of the Slovak Republic and the European Union, levies to the European Union, transfers to the Social Insurance Agency and expenditures on the liquidation of damages caused by natural disasters

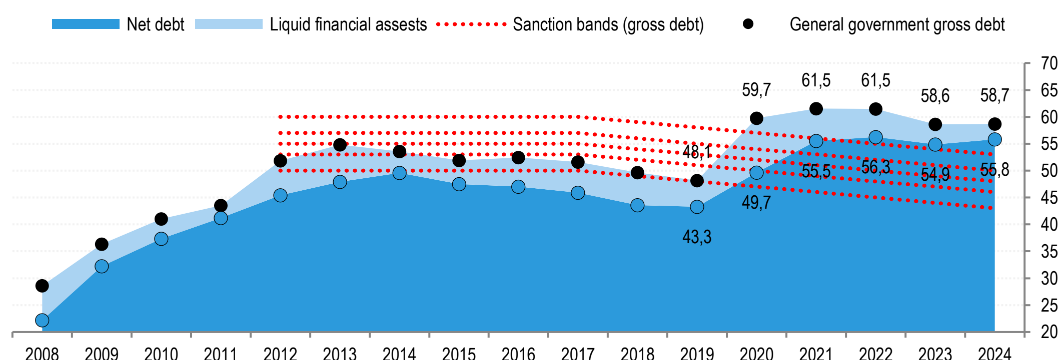
III. General government debt and long-term sustainability of public finance

Public debt rose to an all-time high in 2020, but after the latest revision of the data, it did not eventually exceed 60% of GDP. High expected deficits in this and next year will lead to a further increase in gross debt above 60% of GDP. By 2022, however, the debt will have already peaked at 61.5% of GDP and will start declining again in 2023 after the planned reduction of headline deficit below 3% of GDP. The decline in debt will also be fuelled by an economic recovery supported by Recovery Plan resources, higher inflation and a gradual reduction of the government's cash reserve to pre-crisis levels. Net debt, which abstracts from changes in liquid assets, will remain almost unchanged, reaching 56% of GDP in 2024. A long-term view of debt through the lens of a no-policy-change scenario, i.e. no government response after 2024, points to a possible increase in debt above 90% of GDP. At the same time, the medium- and long-term sustainability indicators reach maximum values, indicating high risks. Both indicators underline the importance of pension reforms. The currently proposed reform by the Ministry of Labour improves long-term sustainability as measured by the S2 indicator by 2.6% of GDP, but would also imply a significant increase in the deficit over the next two decades.

The starting point for the government gross debt forecast is a debt ratio of 59.7% of GDP in 2020. Slovakia's gross debt did not exceed the Maastricht threshold of 60% of GDP last year, but it still represents the highest level ever achieved. At the same time, all sanction bands of the currently applicable constitutional Fiscal Responsibility Act have been exceeded.[24] Compared to the estimate in the Stability Programme (SP) based on the spring Eurostat notification, the debt is revised down by 0.8 p.p. of GDP[25]. YoY, debt-to-GDP increased by 11.6 pp.. The increase was mainly due to the negative effects of the COVID-19 pandemic – an increase in the general government budget deficit and the downturn in the economy – but also to increase in cash reserve due to the uncertainty of the pandemic's development.

In 2021, gross debt will rise above the 60% threshold and is currently projected to reach 61.5% of GDP. The main source of YoY debt growth is the high expected general government deficit of almost 8% of GDP, reflecting the still unfavourable situation regarding the third wave of the coronavirus pandemic.[26] Gross debt will increase by 1.8 p.p. y-o-y due to the high deficit and exceed 60% of GDP, despite the use of more than a third of the government's accumulated cash and the contribution of inflation. However, the pace of debt growth will be slower than projected in both the Stability Programme and last year's general government budget. As part of the increase in indebtedness, the government's liabilities to entities outside the general government sector, which are currently depositing free financial resources in State Treasury accounts to a greater extent, amounting to about 0.5% of GDP, are also part of the increase.

CHART 17 – Projection of gross and net public debt in 2022-2024 (% of GDP)



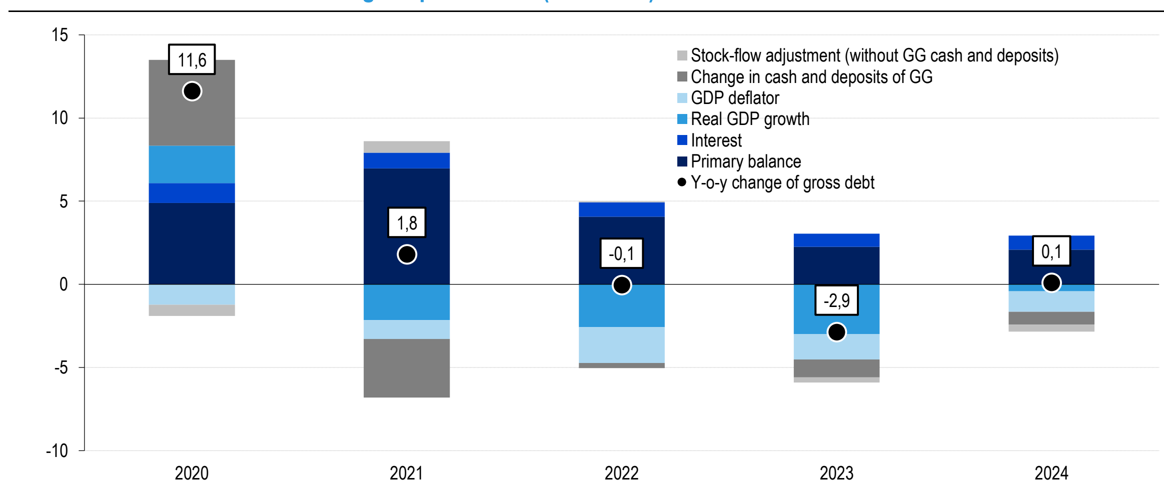
Note: Sanction bands represent the current constitutional law on fiscal responsibility.

Source: Ministry of Finance of the Slovak Republic

[24] According to the current Constitutional Fiscal Responsibility Act 493/2011, the highest 5th sanction band for 2020 has been set at 57% of GDP.
[25] The main reasons for the revision are a more positive impact of GDP on debt through the denominator effect (0.6 p.p.) and a 0.2 p.p. reduction in nominal debt due to the exclusion of the Cuba guarantee from public debt.
[26] Included in the deficit are upside risks on capital investment of about 1% of GDP explained in Chapter 2.

On the general government budget horizon, public debt is expected to peak in 2021 and 2022, then fall below 59% of GDP by 2024. The decline in debt will be driven by favourable economic developments supported by the Recovery Plan resources, accompanied by a globally higher inflation rate, which will temporarily exceed the European Central Bank's target also in 2022. The gradual unwinding of the cash reserve will also contribute to the decline in gross debt. Total general government financial assets will return to around 4% of GDP over the next period, reducing the gap between gross and net debt. Net debt falls below 56% of GDP over the three-year budget horizon. Gross debt dynamics will still be adversely affected by the declining but persistent primary general government deficit and interest payments, which will act to increase indebtedness. However, interest payments on existing debt should not rise significantly even if inflation rises, as almost all of the government debt has a fixed interest rate for several years in advance.

CHART 18 – Main drivers of change in public debt (% of GDP)



Source: Ministry of Finance of the Slovak Republic

Public debt will not fall below the highest sanction band of the debt brake by 2024 and its current wording will require submitting the balanced budget. The reconstitution of the Government with the approval of the Manifesto of the Government in the spring of 2021 activated a 24-month exemption for the application of sanctions from exceeding the highest bands of the debt brake. After this period, the activation of the sanctions currently in force for the financial year 2024 would require the adoption of a balanced budget. Within this period, the government will be obliged to submit proposals for debt reduction measures to the National Council of the Slovak Republic and the salaries of government members will be reduced to the previous year's level (see BOX 6).

BOX 6 – Sanctions under the current Constitutional Law on Budgetary Responsibility

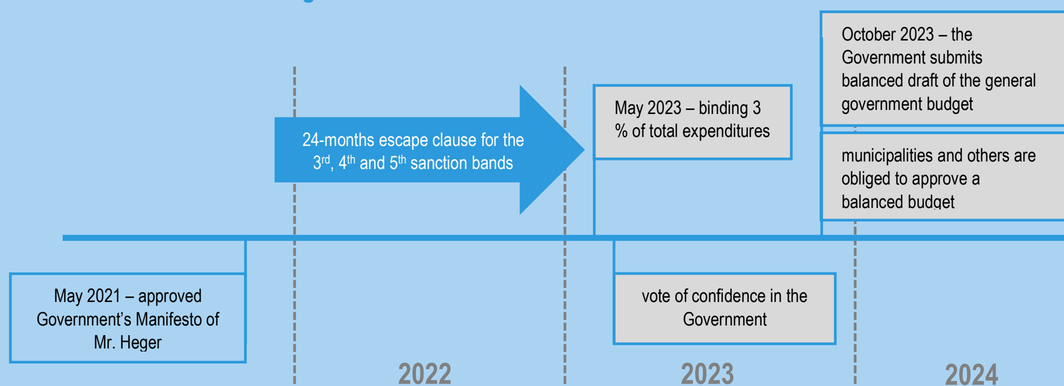
Without passage of the debt brake amendment, the current law will require the harshest penalties for 2024. The Ministry of Finance's medium-term debt forecast is based on a planned YoY structural consolidation of 1% of GDP from 2023. This procedure is based on the assumption of the approval of the debt brake amendment to the Constitutional Fiscal Responsibility Act (Constitutional Amendment to the Constitutional Law on Budgetary Responsibility), the government's draft of which has been submitted to the National Council of the Slovak Republic. In case of non-approval, it would be necessary to comply with the current Constitutional Act 493/2011 and its sanctioning mechanisms, which will require the most severe sanctions from 2023 onwards.

Gross debt will remain above the highest sanction bands of the debt brake on the budget horizon, which will require a vote of confidence in the government and the presentation of a balanced budget in 2023. Gross general government debt at 59.7% of GDP in 2020 exceeded all sanction bands of the current debt brake. Despite the exceeding of the highest bands, the most stringent sanctions are not applied due to the onset of the new government. At this time, the government is obliged to submit proposals for debt reduction measures to the National Council of the Slovak Republic and the salaries of government members will be reduced to the previous year's level. In spring 2023, when the derogation expires, the highest applicable public

debt sanction band will be 55% of GDP (for 2022). The forecast for gross debt in 2022 assumes a debt burden above 60% of GDP, which would require triggering the following debt brake sanctions for 2023 and 2024:

- the government must submit to the National Council of the Slovak Republic a draft of balanced budget for next year (and no year-on-year increase in expenditure) and ask for a vote of confidence in the government,
- Ministry of Finance of the Slovak Republic starts to bind 3% of the total state budget expenditure one month after the debt announcement,
- reducing the salaries of members of the Government to the level of the previous year and freezing the funds in the Government and Prime Minister's provisions,
- local governments are required to approve next year's balanced or surplus budgets.

SCHEME 1 – Time schedule of highest sanctions from 2023

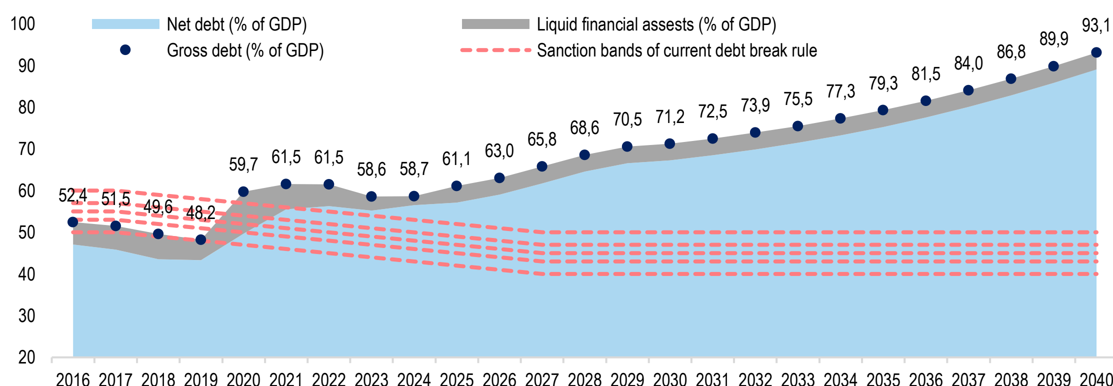


Source: Ministry of Finance of the Slovak Republic

III.1. Long-term sustainability

Without continued consolidation over the budget horizon and in the absence of pension reforms, public debt may rise above 90% of GDP by 2040. The debt forecast foresees the deficit falling below 3% of GDP by 2024, a level at which the debt will stabilise below 60% of GDP. After 2024, however, the deficit would widen again and the debt would start an upward trend that could not be stabilised without consolidation. This is due to the projected expenditures associated with an ageing population, which are projected to rise from 19.3% to 23.5% of GDP over the next twenty years. By 2040, public debt would reach over 90% of GDP in the no-policy-change scenario and grow even more significantly in the following years. On average, slower nominal GDP growth (7.3% in 2000-2020 vs. 3.9% in 2021-2040) would also contribute to debt growth).

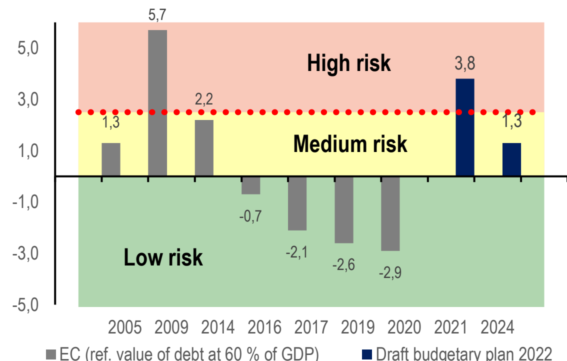
CHART 19 – Long-term projection of public debt in No-policy change scenario after 2024 (% of GDP)



Note: The no-policy-change scenario assumes that the budgetary objectives are achieved by 2024 and that developments after 2024 are without additional consolidation measures and with the impact of population ageing. The macroeconomic outlook is taken from the macro forecast and the AWG. Liquid financial assets are expected to be constant at 4% of GDP. Sanction bands represent the current constitutional Fiscal Responsibility Act.

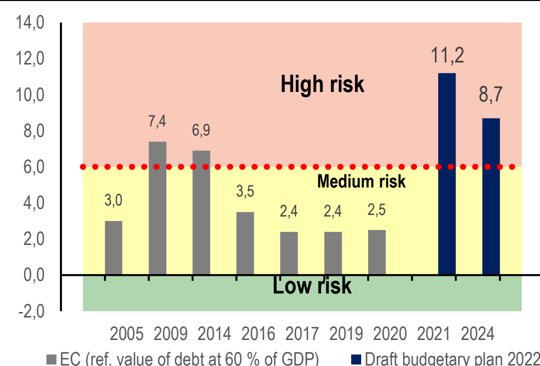
Source: Ministry of Finance of the Slovak Republic

CHART 20 - Sustainability of S1 (% GDP)



Source: EC, Ministry of Finance of the Slovak Republic

CHART 21 - Sustainability of S2 (% GDP)



Source: EC, Ministry of Finance of the Slovak Republic

The unfavourable situation is confirmed by the historically highest values of the medium- and long-term sustainability indicators. Despite more favourable developments compared to the Stability Programme, both medium- and long-term sustainability indicators (S1 a S2)[27] remain at high risk for 2022, even after taking into account the current fiscal position of the Slovak Republic. The estimated value of indicator S2 will not move out of the high risk band even by 2024.

A return of the S1 and S2 indicators to the medium- to low-risk bands will require continued consolidation alongside reforms beyond 2024. The forthcoming reform of the pension system could improve long-term sustainability. In particular, it should reconnect the retirement age to life expectancy, which should have the most positive impact on sustainability (BOX 7). However, the S2 indicator will not return to the medium or low risk bands even in 2024, even after taking into account the impact of the yet-to-be-approved pension reform. A combination of further reforms and consolidation are therefore needed beyond the budget horizon (TABLE 6).

TABLE 6 – Decomposition of long-term sustainability indicator S2 in 2024 (% GDP)

	S2 indicator (% of GDP)
Total value	**8.7 (high risk)**
out of:	
Initial budgetary position of structural balance and debt (in 2024)	1.3
Pension expenditures	4.1
Health care expenditures	1.6
Long-term care expenditures	1.6
Expenditures on education	0.4
Others	-0.4
Reform of Pillar I from the Ministry of Labour and Social Affairs (for more see BOX 7)	*-2.6*
** Estimated value of S2 in 2024 after taking into account the effects of the reform*	*6.1 (high risk)*

Source: Ministry of Finance of the Slovak Republic

BOX 7 – Planned reform of the pension system

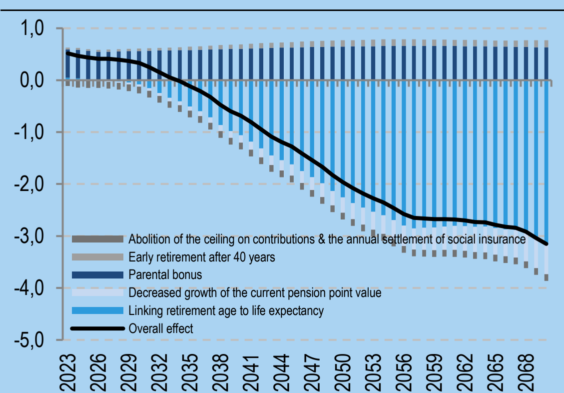
The introduced reform of the I. pillar aims to improve the long-term sustainability of the pension system and to strengthen the link between pension expenditure and demographic developments. The current draft amendment to the Social Insurance Act proposes a way of implementing the objectives set out in the Recovery Plan[28] and implementing the details of the constitutional rights to adequate material security in old age, which were added to the Constitution of the

[27] Indicator S1 presents the value by which the current primary structural balance must permanently change in order for gross general government debt not to exceed 60% of GDP by 2034. Indicator S2 presents the value by which the primary structural balance must permanently change for the debt to remain at its current level. Unlike S1, indicator S2 takes into account projections related to population ageing over an infinite horizon. The Ministry of Finance of the Slovak Republic also considers the impact of the second pillar on both the revenue and expenditure side in its quantifications for this indicator.
[28] Recovery Plan: Component 18 - Sound Public Finances. Measures include linking increases in the retirement age to increases in life expectancy and ensuring entitlement to an actuarially neutral first pillarbenefit after a statutory minimum number of years of service.

Slovak Republic in December 2020[29], with effect from 1 January 2023. The amendment includes the reintroduction of linking the retirement age to the increase in life expectancy, the possibility of early retirement after 40 years of service, parental bonus, reduction of the growth of the current pension point value, elimination of the maximum assessment base for the payment of social contributions and abolition of the annual settlement of social insurance.

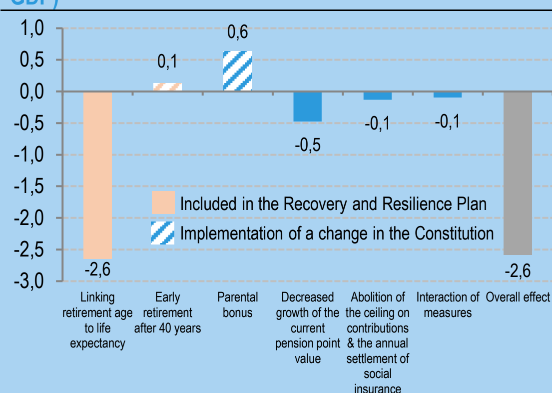
The reform of the I. Pillar significantly improves the long-term sustainability of the public finances, but it increases the balance of the pension system by the middle of the next decade. Slovak public finance faces a high sustainability risk. Therefore, the Government of the Slovak Republic has committed in the Recovery Plan to adopt such changes in the I. pension pillar that will lead to an improvement of the long-term sustainability of the public finance indicator S2 at least at the level of 1.8 p. p. of GDP. The adoption of the planned reform in its current wording will ensure this goal, with the most significant positive effect of linking the growth of the retirement age to the development of life expectancy. The remaining measures have contradictory effects on long-term sustainability, which in the end almost neutralise each other. Among the measures included in the reform, the long-term sustainability of the pension system (and the budget) is worsening the current balance of the pension system (and the budget), in particular the proposal to implement the parental bonus introduced by the Constitution. While the negative impact of this measure on long-term sustainability is almost fully offset by the proposed reduction in the growth of the current pension point value, the overall balance of the pension system will be higher compared to the status quo after the reform until 2034. At the same time, a slowdown in the growth of the current pension point value will reduce the level of pensions awarded in 2070 by around 10%.

CHART 22 – Impact of current Pillar I reform measures on age-sensitive expenditure (p.p. GDP)



Source: IFP

CHART 23 – Change in indicator S2 when individual measures of the current reform are implemented (in p.p. GDP)



Source: IFP

Note: All measures are calculated as an effect relative to the current setting, except for the effect of early exit from the labour market after 40 years. The latter is taken as an additional effect to the reintroduction of retirement age growth with life expectancy. With the current retirement age growth setup, this effect would be minimal.

Note: The change in pension revenues is presented in the graph as a change in expenditure in the opposite direction.

Efficient II. and III. pension pillars can help reduce the pressure on I. PAYG pillar, whose overall balance will continue to increase due to worsening demographics. Although the current reform of the I. pillar contributes significantly to improving its long-term sustainability, the deficit in PAYG pensions will continue to grow in the future due to the ageing population. Thus, the balance of the PAYG pension system will increase from a pre-pandemic level of 0.9% of GDP in 2019 to 4.5% of GDP in 2070, even after the implementation of the I. pillar reform.[30] Thus, we will still need about the same amount of money spent on education to fund pensions in the future. Efficient fully-funded pillars II and III generating higher pensions could further help reduce the pressure on the PAYG pillar I. It is therefore important to significantly improve the performance of pension funds and increase participation in both savings pillars. Possible solutions are the introduction of a more profitable default investment life-cycle strategy or automatic entry into the II. pillar. These are measures to which the Government has committed itself in the Recovery Plan[31] and in the Manifesto of the

[29] As part of this amendment, the retirement age ceiling was removed from the Slovak Constitution and 3 new principles were introduced: 1) childcare cannot have a negative impact on the amount of the pension, 2) working children can allocate part of their taxes or contributions to their parents (called a parental bonus) and 3) a person can retire not only at retirement age, but also earlier - if he or she has completed a set number of years of service.

[30] In the absence of the proposed reform of the I. pillar; the balance would rise to 6.7% of GDP in 2070.

[31] Recovery Plan: Component 18 - Sound public finances, Reform No. 1: In order to increase the efficiency of the savings phase of old-age pension savings, a default savings strategy based on the life-cycle principle will be introduced for new and gradually also for existing savers in the II. pillar (with the possibility of opting out of this default strategy).

Government[32]. Amendments to both fully-funded pillars addressing the issues in question are currently in the legislative process.

[32] In the Government Programme Statement for 2021-2024 (GSP), the government committed to introduce automatic entry into the second pillar for insured persons up to 35 years of age, with the possibility to participate only in the first pillar if the insured person actively chooses to do so. In the Programme Statement, the Government also committed to reform all pillars of the pension system to improve the financial sustainability of the pension system and increase pensions for citizens

IV. Public finances quality

IV.1. Revenue objectives of the budget

The decline in the economy's performance in 2020 was more pronounced than the decline in tax revenues, which hardly declined at all (CHART 24). All major taxes maintained their revenue levels compared to 2019. The biggest surprise is the usually pro-cyclical corporate income tax, where the 2009 scenario was not repeated (Chart 25) thanks to stable revenues from strong sectors (trade, energy, finance), which account for the bulk of value added in the economy. Despite the pandemic and a slight decline in employment, wage growth outweighed and sustained labour tax receipts, which also contributed to the steady evolution of household consumption. In contrast to developments in neighbouring countries, it has not fallen. In the case of VAT, the parallel with the crisis year 2009 was also not confirmed. Strong consumption and only a short-term decline in collection success on VAT (Chart 26), kept the level of VAT revenue strong. From 2022 onwards, the revenue momentum will accelerate thanks to EU funds and the Recovery Plan. The slowdown will not occur until 2024 due to planned budget consolidation.

Continued growth in the effective tax rate (ETR) on VAT is a positive risk for the future estimate of the tax gap (CHART 27). This should translate into a continuing trend of narrowing the tax gap, which is also confirmed by Slovakia's regular assessments within the EU[33]. According to the Commission, the VAT gap fell to 20% in 2018. The EC's flash estimate for 2019 signals a drop to 16.6%, which would be a decline of more than half compared to 2012. Despite the significant improvement, Slovakia still has room to further close the gap towards the European average, which is expected to reach around 10% in 2019, according to a quick estimate by the EC. Beyond legislative measures, organisational and procedural changes planned by the new management of the Financial Administration will also be key to reducing tax evasion. These should be based on the recommendations of the International Monetary Fund's TADAT [34] project and other "best practices" arising from international experience.

CHART 24 – YoY growth in GDP, taxes and social security contributions

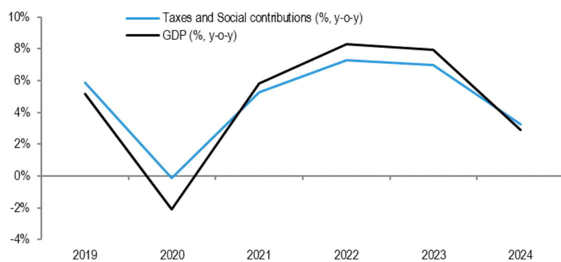
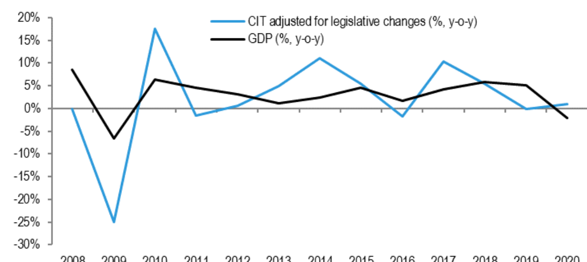


CHART 25 – Pro-cyclical corporate tax developments have not been repeated



Source: Eurostat, Ministry of Finance of the Slovak Republic, AMECO

CHART 26 – VAT rises again

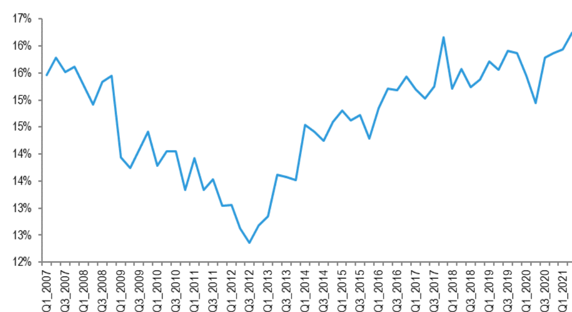
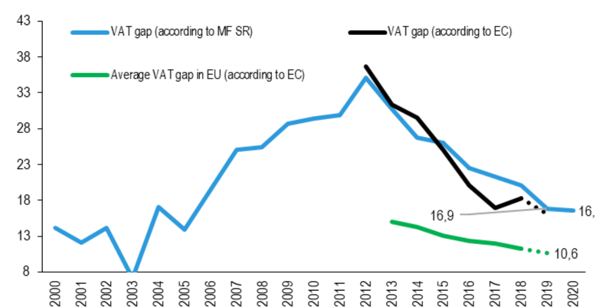


CHART 27 - VAT tax gap (% of potential revenue)



Source: EK, Ministry of Finance of the Slovak Republic

33 The European Commission's methodology is published on the following website.

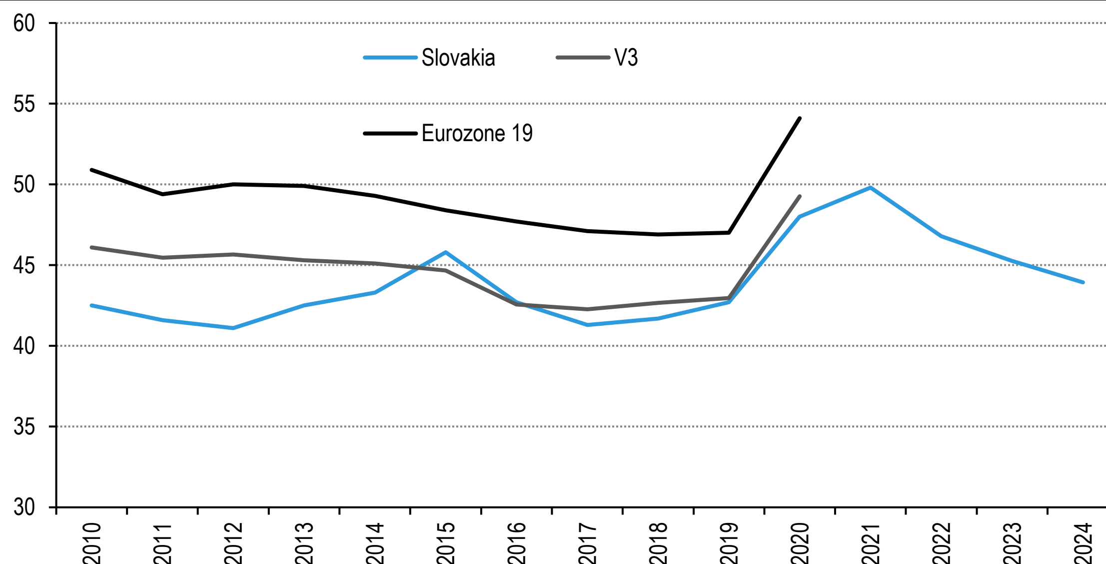
34 More information about the evaluation is published on the project website. The TADAT assessment was carried out for Slovakia in June 2018.

IV.2. Expenditure objectives of the general government budget by function

The drawing of EU funds and the funding from the Recovery and Resilience Plan keep public spending as a share of GDP above pre-crisis levels. Since 2017, the share of spending on GDP has risen slightly, followed by a significant increase in 2020 and 2021, mainly due to the COVID-19 pandemic. This increased in share was caused not only by measures to soften impact of the crisis, but also due to the strong drop in GDP level. The share of public spending on GDP starts to decrease from 2022, mainly due to faster GDP growth, although the level of spending rises in nominal terms.

Expenditure on projects from the Recovery and Resilience Plan will be 0.9% of GDP in the public sector in 2022 (with VAT).[35] In the following years, the available allocation further increases to 1.2% of GDP in 2023 and then accounts for 1% of GDP in 2024 (see **TABLE 8**). The Recovery Plan projects represent a comprehensive response to the consequences of the crisis associated with the COVID-19 pandemic, as well as a response to the main challenges and systemic gaps identified. The vast majority of resources will be used to generate new investment. Funding from the Recovery Plan will mainly be used to promote green economy, education, health, science, research and innovation, and to improve the quality of public institutions. For more on specific measures, see Chapter VI.

CHART 28 - Development of general government expenditure (% GDP)[36]



** Note: EA19 (Eurozone average), V3 (V4 without the Slovak Republic)* *Source: Eurostat, Ministry of Finance of the Slovak Republic*

An international comparison of the structure of expenditures by function in relation to other V4 countries shows that Slovakia spent smaller share of expenditures in 2019 on the economic area, recreation, culture and religion, and education. We are currently one of the euro area countries with more favourable demographics, which is why social security spending in Slovakia is lower compared to these countries. These expenditures are expected to increase significantly in the future, as a result of ageing population. A comparison with other V4 countries, which have a similar demographic structure of the population as the Slovak Republic, seems more appropriate. In this case, the share of GDP spent on social security was even slightly higher than the V3 average.

The share of expenditure on GDP increases over the budget horizon in general public services and defence. Within general public services, expenditure increases due to provision for new legislation and new capital projects.

[35] Total resources in the economy will be even higher due to projects and investments in the private sector. In 2022, EUR 1.3 billion (excluding VAT) will be available. Any necessary induced expenses could be covered by resources held in the reserve (expenditure on economic measures and economic support).
[36] General government expenditure does not take into account yet unspecified consolidation measures.

Defence spending also rises due to delivery of the already ordered military equipment. The shares of other items in GDP decline mainly due to strong GDP increase, despite their nominal growth.

TABLE 7 – General government expenditure by COFOG classification

Functions	COFOG code	SK (2019)	DBP SK (2022)	DBP SK (2023)	DBP SK (2024)	V3 (2019)	EA 19 (2019)
		% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
1. General public services	1	5.4	8.2	7.6	7.8	5.6	5.8
2. Defence	2	1.1	1,2*	1.8	1.9	1.2	1.2
3. Public order and security	3	2.3	2.4	2.2	2.1	2.0	1.7
4. Economic area	4	5.1	5.2	5.0	3.6	6.3	4.3
5. Environmental protection	5	0.8	0.8	0.7	0.7	0.6	0.8
6. Housing and amenities	6	0.5	0.5	0.5	0.4	0.7	0.6
7. Health care[37]	7	7.7	8.0	7.9	7.9	5.7	7.2
8. Recreation, culture and religion	8	1.2	1.1	1.0	1.0	1.9	1.1
9. Education	9	4.2	4.5	4.1	3.7	4.9	4.6
10. Social security	10	14.4	15.0	14.5	14.7	14.0	19.8
Total expenditures	**TE**	**42.7**	**46.8**	**45.3**	**43.9**	**42.9**	**47.0**

Note: DBP – draft budgetary plan *Source: Ministry of Finance of the Slovak Republic, Eurostat*

Note 2: General government expenditure does not directly include all necessary induced expenses from the Recovery and Resilience Plan or yet unspecified consolidation measures.

** The COFOG classification is reported in ESA 2010 methodology (i.e. accrual). Therefore expenses are recorded according to the time of delivery. Major defence investment projects in 2022 are therefore reflected in the subsequent years.*

[37] The figure for public expenditure on health of 7.7% of GDP in 2019 is based on the COFOG and ESA 2010 methodology. According to the SHA (System of Health Accounts) methodology and OECD data, health spending is estimated to be 5.6% of GDP in 2019. COFOG and ESA 2010 suffer from double counting of public hospital expenditures and overestimate real health care expenses.

V. No policy change scenario and budgetary measures

The 2022 general government budget retains room for addressing the impact of the pandemic, but also for new spending policies. On the expenditure side, there is already an increase in expenditures next year compared to the NPC scenario of 1.1% of GDP. The pandemic-related contingency reserve of 0.7% of GDP, should provide sufficient room to respond to a possible more negative outcome of a third wave of the pandemic. Planned dampening of the growth of the wage bill in the state budget and current expenditures of other public administration entities will create room for as yet unallocated pro-growth expenditure titles in the amount of 0.5% of GDP. In the following years, the continuation of the planned dampening of compensation should contribute to a gradual decline of the deficit below 3% of GDP. Specific measures will need to be identified to implement the presented budget savings compared to the no-policy-change scenario. andapart from this, other unspecified measures of 0.7% of GDP are necessary to comply with headline budget targets.

V.1. No policy change scenario 2022-2024

The no-policy-change (NPC) scenario shows the reference path of public finances, assuming unchanged legislation from 2021 onwards and the current macroeconomic scenario. Its contribution is to quantify the approximate amount that the government's new active measures in the budget contribute to the overall government economy in isolation from other influences (e.g. economic developments over which the government has no control). The starting point for the construction of the no-policy-change scenario for 2022-2024 is the ongoing monitoring of the general government deficit in 2021 at 7.9% of GDP. In this chapter, only newly adopted measures from 2021 onwards are described as government budgetary measures under the NPC scenario methodology[38].

TABLE 8 – Comparison of expenditure and revenue balance and NPC in 2022 to 2024 (% GDP)

		S	OS	Draft general government budget			NPC			NPC - Draft general government budget		
	ESA code	2020	2021	2022	2023	2024	2022	2023	2024	2022	2023	2024
Revenues total		**42.1**	**41.9**	**41.9**	**41.9**	**40.7**	**41.9**	**41.9**	**40.7**	**0.0**	**0.0**	**0.0**
Taxes on production and imports	D.2	12.1	12.0	11.8	11.7	11.6	11.8	11.7	11.6	0.00	0.00	0.00
Current taxes on pensions, property	D.5	7.2	7.4	7.4	7.4	7.5	7.4	7.4	7.5	0.0	0.0	0.0
Taxes on capital	D.91	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social security contributions	D.61	15.7	15.7	15.0	14.7	14.9	15.0	14.7	14.9	0.0	0.0	0.0
Property pensions	D.4R	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.0	0.0	0.0
Others*		6.5	6.2	7.2	7.5	6.3	7.2	7.5	6.3	0.0	0.0	0.0
Expenditures total		**47.6**	**49.8**	**46.8**	**45.3**	**43.9**	**45.7**	**45.2**	**44.2**	**-1.1**	**0.0**	**0.2**
Employee compensation	D.1P	11.4	10.9	10.0	9.5	9.5	10.3	10.1	10.4	0.3	0.6	0.9
Intermediate consumption	P.2	6.0	7.0	7.4	7.5	7.0	6.4	7.1	6.6	-1.0	-0.4	-0.4
Subsidies	D.3P	1.3	1.7	1.1	1.1	0.9	1.1	1.2	1.0	0.0	0.1	0.1
Interest expenses	D.41P	1.2	0.9	0.9	0.8	0.8	0.9	0.8	0.8	0.0	0.0	0.0
Total social transfers	D.6P,D632	20.2	22.1	19.2	18.6	18.9	19.2	18.7	18.9	0.0	0.0	0.0
of which: Unemployment benefits		0.4	0.3	0.3	0.2	0.2	0.3	0.2	0.2	0.0	0.0	0.0
Gross fixed capital formation	P.51G	3.5	4.2	4.5	4.5	4.0	4.6	4.3	3.9	0.0	-0.2	-0.1
Capital transfers	D.9P	0.6	0.5	0.3	0.3	0,2	0.2	0.3	0.2	-0.1	0.0	0.0
Others**		3.3	2.5	3.3	2.9	2.6	2.9	2.8	2.3	-0.4	-0.1	-0.3
General government balance	**B.9**	**5.5**	**7.9**	**4.9**	**3.4**	**3.3**	**3.8**	**3.3**	**3.5**	**-1.1**	**0.0**	**0.2**
Unspecified measures in the general government budget against objectives					0.7	0.7						
p.m. EU funds (outside the Recovery Plan)		**1.0**	**1.2**	**1.5**	**2.1**	**1.0**						
p.m. Recovery plan			**0.1**	**0.9**	**1.2**	**1.0**						

Note: * P.11+P.12+P131+D.39rec+D.7rec+D.9rec (other than D.91rec)

** D.29p+D.5p+D.7p+P.5M+NP

Source: Ministry of Finance of the Slovak Republic

[38] The NPC methodology is published on the website of the Ministry of Finance

V.2. Measures description

Compared to the no-policy-change scenario, the government's measures relate exclusively to the expenditure side of the budget. In the case of tax revenue, the budget is based on the current economic forecast and more recent estimates of the impact of legislation passed in previous years. For non-tax revenue, while there is a difference between the budget and the estimate in the no-policy-change scenario, this is influenced by the economic downturn in 2021, which resulted in a decline in non-tax revenue[39]. A mechanical application of the methodology would thus undervalue non-tax revenues for future years, due to the lower base year of 2021. The NPC scenario on non-tax revenue is therefore analytically adjusted to match the budget, as is the case for tax revenue.

Expenditure measures

On the expenditure side, there is already an increase in expenditure by 1.1% of GDP in 2022 compared to the NPC scenario, from 2023 the impact of slowdown in public wage bill growth prevails. The increase in expenditure above the effect of macroeconomic fundamentals[40] in 2022 is mainly driven by the provisions made for expenses related to the third wave of the COVID-19 pandemic. To a lesser extent, not yet identified new government priorities also increase total expenses. New expenditure titles are allowed in response to slower growth of current expenditure of entities outside the state budget and the planned slowdown of the growth of the public wage bill in the state budget. Its impact prevails especially in the end of the budget horizon.

TABLE 9 – Expenditure measures included in the draft general government budget (ESA 2010, NPC comparison)

	ESA2010	2022	2023	2024
Compensation, of which:	**D.1**	**0.31**	**0.61**	**0.89**
reserve for wages and insurance premiums		-0.17	-0.13	-0.18
reserve for impacts of new legislation		-0.03	-0.04	-0.04
public sector wage freeze (wages paid from the national budget of the Slovak Republic)		0.17	0.35	0.54
slower growth of expenditure of municipalities		0.18	0.18	0,21
slower growth of expenditure of public universities		0.14	0.18	0.20
Intermediate consumption, of which:	**P.2**	**-0.98**	**-0.43**	**-0.37**
reserves and special expenses, of which:		-1.34	-0.88	-0.75
reserve for COVID-19 impacts in 2022		-0.68		
expenditure on economic measures and economic support		-0.26	-0.43	-0.29
reserve for healthcare expenditures		-0.21	-0.21	-0.21
reserve for joint programs` financing		-0.15	-0.15	-0.15
reserve for impacts of new legislation		-0.03	-0.08	-0.09
development of intermediate consumption in the national budget (without reserves and special expenses)		0.05	0.00	-0.08
slower growth of expenditure of municipalities and other GG subjects (medical facilities, NDS, ŽSSK)		0.31	0.41	0.42
Subsidies, of which:	**D.3P**	**0.04**	**0.06**	**0.07**
decreased agricultural subventions		0.04	0.04	0.04
Total social transfers, of which:	**D.6P**	**-0.03**	**0.02**	**0.02**
pandemic sickness and nursing benefit	D.62P	-0.05		
Healthcare spending (social transfers in kind), of which:	D.632	0.02	0.02	0.02
saving measures		0.24	0.28	0.29
new spending measures		-0.17	-0.25	-0.30
Other current transfers, of which:	**D.7p**	**-0.38**	**-0.08**	**-0.18**
reserve for contributions to the general budget of the EU		-0.31	0.00	0.00

[39] The NPC has the ambition to identify government actions. In the case of non-tax revenues, the most affected are the revenues from administrative charges, especially for the National Motorway Company (NDS), the Railways of the Slovak Republic (ŽSR) and the (Slovak Railway Company) ZSSK (e.g. the shortfall in toll revenues for the National Motorway Company (NDS), or in traffic volumes for the Railways of the Slovak Republic (ŽSR)), which are a consequence of the economic downturn. There is also no difference on grants and transfers due to government action.

[40] Inflation growth, private sector wages growth or GDP growth are among the fundamentals that impact the development of expenditure in the NPC scenario.

reserve for impacts of new legislation		-0.04	-0.04	-0.07
reserve for dealing with crisis situations outside the time of war		-0.01	-0.01	-0.01
Capital investments, of which:	**P.5L**	**0.01**	**-0.24**	**-0.22**
expenditure on economic measures and economic support	P.51g	-0.22	-0.20	-0.19
reserve for impacts of new legislation	P.51g	-0.03	-0.02	-0.01
development of the GFCF in the national budget (without reserves and special expenses)	P.51g	0.27	0.04	0.15
Ministry of defence - special material	P.5M	-0.02	-0.09	-0.15
ŽSR - sale of redundant assets	NP	0.00	0.04	0.00
Capital transfers, of which:	**D.9P**	**-0.09**	**0.01**	**0.01**
transfer to Environmental fund from the modernization fund		-0.09	0.00	0.00
Total expenditure		**-1.12**	**-0.05**	**0.22**

Note: *(+) an increase in revenue and a reduction in expenditure*

The government plans to dampen the growth of compensation compared to the expected development in the private sector mainly by freezing the wage bill of the state budget. The most significant contribution to ensure more efficient public wage bill is targeted by the state budget and its organisations. Municipalities and public colleges[41] are also expected to reduce spending relative to expected wage growth in the private sector to a greater extent (mainly due to the optimisation of non-teaching staff and the reduction in the number of university lecturers). To a lesser extent, a slowdown in wage growth is expected for ŽSR, ŽSSK, NDS, JAVYS and from 2023 also for regional municipalities. Overall slower growth allows for creation of a provision for wages and insurance premiums of groups of employees where the wage development is partly determined by law[42] and to address the impact of legislative changes (amendment to the Competence Act, introduction of procedures for the digitalization of the public administration agenda, amendment to the Act on the execution of detention).

Intermediate consumption expenditure rises above the rate of inflation over the entire budget horizon, but most significantly in 2022 due to the provision for the third wave of the pandemic[43]. A number of reserves are typically accounted for on the item intermediate consumption. In addition to expenditure to cover the impact of the pandemic, the budgetary plan accounts for a provision to address the impact of new legislation (amendment on land management, support for the least developed districts, amendment to the Competence Act, amendment to system of executions, amendment on public procurement and support for rental housing). Additional resources are earmarked for more flexible administration and faster implementation of a larger number of primarily EU-funded projects. The healthcare expenditure reserve is expected to be used to finance higher volumes of medical treatments (mainly deferred care) if the implementation of structural measures is postponed or in case of other unexpected healthcare expenditures. Expenditure on economic measures and support for the economy includes possible new measures within the forthcoming tax reform. Finances for these new priorities will be created in particular by slower growth of intermediate consumption below inflation in the case of local governments and also other public administration entities (mainly health facilities, NDS, ŽSR and from 2023 also ŽSSK).

Consolidation measures also affect subsidies. The projected decline relative to the NPC scenario is mainly due to a reduction in agricultural subsidies.

No new measures are foreseen for social transfers beyond the already existing legislation. The draft budgetary plan expects the pandemic sickness and nursing benefits to compensate for loss of income even in 2022[44]. These benefits are used in the event of contracting COVID-19 or if a worker is ordered to stay in quarantine.

[41] For public higher education institutions, the overall balance will also be affected by as yet unbudgeted business income and resources carried over from previous years.
[42] Expenditure to cover salary increases for governmental officials, judges, prosecutors and public officials. The provision also allocates expenditure to reinforce the remuneration of staff in existing analytical departments of ministries, expenditure to provide statutory entitlements and expenditure on statutory salary entitlements for staff remunerated under the Labour Code, based on the level of the minimum wage.
[43] Reserve to finance first aid measures, humanitarian aid, SOS grants and other pandemic contributions, to purchase contracted vaccines against COVID-19 and to compensate health facilities for increased costs due to the reprofiling of beds for COVID-19 patients.
[44] The budget of the Social Insurance Agency already accounts for pandemic expenditure. The remaining resources from the provision currently accounted for on the item intermediate consumption will be used according to actual need.

New measures in healthcare partly offset planned savings. Cost-saving measures focus in particular on ensuring a more efficient drug policy (central procurement, efficient prescribing of rare drug treatment, reduced overconsumption) and reducing the number of examinations by specialists or the use of special examination and treatment units. The new measures will focus on improving general outpatient care, introducing innovative treatments, increasing access to long-term care and mental health care, and abolishing drug co-payments for pensioners and the severely disabled.

Others current transfers are budgeted above the NPC scenario over the entire budget horizon. In 2022, the provision for contributions to the EU general budget explains most of the development beyond NPC[45]. The budget also makes provision for an increased levy to the EU budget, as a result of an investigation into past illegal customs clearance of Chinese goods (expected payment of 0.3% of GDP). In addition, the provision for dealing with the impact of legislative changes (pending proposals) and for dealing with the crisis situation are also contributing to faster growth.

National capital expenditure grow faster than economic growth from 2023 onwards, complementing significant EU investment resources. Expenditure on economic measures and economic support is earmarked to potentially fund some Recovery and Resilience Plan investments to ensure that all milestones are met. The provision to address the impact of legislative changes will be used to cover expenses related to the digitalization of the public administration agenda and the amendment of the Public Procurement Act. There is a slowdown in the growth of new defence spending from the state budget. However, across the budget horizon, there will be increased spending for Ministry of Defence special equipment in relation to the ongoing delivery of previously ordered military equipment. The sale of the surplus assets of ŽSR is planned for 2023. Capital transfers will be above the NPC in 2022 due to the foreign grant from the modernization fund to the Environmentalfund.

[45] This expenditure is included in the draft budget for 2022 as it will not be implemented in 2021 and is therefore postponed by one year.

VI. The alignment of the budgetary plan with the objectives of the Growth and Jobs Strategy and specific recommendations of the EU Council

In the context of historically worst values of long-term sustainability, the main priority is to enforce the forthcoming constitutional Fiscal Responsibility Act. The reform introduces expenditure ceilings as the main operational fiscal rule and, together with other changes, will contribute to greater counter-cyclicality of budgetary policy. The amendment of the related current law strengthens control over expenditure management and fully introduces analytical tools for medium-term budgeting (baseline scenarios of expenditure forecasts at budget section level). Public investment management reform continues, with the development of analytically sound and public investment plans, including a zero starting point for investment, which finances only ready and bankable projects. Approval of pension reform, including restoring the link between retirement age and life expectancy, will strengthen long-term sustainability without short-term negative effects on the economy. Most of the structural priorities are directly defined in the Recovery and Resilience Plan of the Slovak Republic (RRP) and aim at raising the growth potential of the economy. In particular, education is a key area through the promotion of inclusion in pre-primary education, curriculum reform in primary and secondary education and the reform of the tertiary education. The funding system for research, development and innovation will be made more efficient. Reforms in the pension system also aim to improve the efficiency of saving in Pillar II. Planned reforms in the areas of supervision and access to long-term care services will contribute to the quality and efficiency of the system. The government-approved health reform aimed at optimising the hospital network will contribute to improving health outcomes. Several reform initiatives address the challenges of environmental quality and inadequate digital infrastructure. The adopted constitutional reform and the forthcoming judicial roadmap aim to increase the efficiency and independence of the judicial system. Beyond the RRP, measures will focus in particular on supporting the recovery of the labour market from the pandemic, streamlining voluntary savings for retirement, Roma inclusion, speeding up construction procedures and waste management.

VI.1. Priorities for enhancing fiscal discipline

The amendment to the Constitutional Fiscal Responsibility Act, will strengthen the long-term sustainability of the public finances, the counter-cyclicality of budgetary policy and the transparency of the budgetary process. Among the biggest changes are the switch to net debt tracking, the adjustment of the debt brake penalty bands, the introduction of expenditure ceilings, and the expansion of the remit of the Fiscal Responsibility Council and the Macroeconomics and Tax Revenue Forecasts Committee (for more, see the Stability Programme 2021-2024[46]). The amendment should be voted on in the National Council of the Slovak Republic in the following months.

The inclusion of expenditure ceilings in the Budgetary rules act will also contribute to improving the quality of public finances on the expenditure side. The amendment to the implementing Budgetary Rules Act implements into the budgetary process the draft expenditure ceilings from the Constitutional Act. The ordinary law will now regulate the approval of expenditure ceilings also at the level of the budget sections [47] of the National Council of the Slovak Republic. The expenditure ceiling will thus no longer apply only to the state budget, but to all public administration except local government. The transparency of the budgetary process and the credibility of the limits set at chapter level will be strengthened by no-policy-change (NPC) scenarios set equally at chapter level. These will represent the first step in the creation of a general government budget (for more details, see **BOX 8**). It also obliges the Ministry of Finance to monitor and evaluate any deviation from the established expenditure ceilings. In doing so, it will have the right to call upon the chapter to justify any deviation and to take measures that will lead to compliance with the overall expenditure ceilings. Information on meeting or exceeding the limits set at budget section level will be available in the chapter's final accounts as well as in the summary annual report. Amendment to the Budgetary Rules Act should be effective from the beginning of 2022.

[46] https://www.mfsr.sk/files/sk/financie/institut-financnej-politiky/strategicke-materialy/program-stability/program-stability/program-stability-slovenska-roky-2021-2024_final_final_na_web.pdf

[47] Chapter administrators will be required to set expenditure ceilings for their subordinate entities, as well as to ensure compliance with the limit within their chapter.

BOX 8 – NPC scenarios at the level of budget chapters [48] as a first step in budgeting

The introduction of departmental NPC scenarios will complement the current use of the aggregate NPC scenario. The NPC scenario is currently used as a quantification of new ex-post government measures in the already constructed budget at the aggregate level (see Chapter V.). The introduction of the so-called departmental NPC scenarios complements this situation, where the budget process will start with this quantification (and will only be updated thereafter). Beyond the current approach, the specificities of individual chapters at disaggregated level will also be taken into account [49]. Comparing the costs of existing policies in the NPC and the budget deficit objectives will provide accurate information on the scope for new government policies or the amount of consolidation needed. The obligation to produce NPC scenarios on a regular basis, including the publication of the methodology, also stems from EU legislation governing fiscal surveillance rules.
The importance of expenditure forecasts for existing policies in individual budget sections also increases significantly in view of the planned introduction of multiannual expenditure ceilings. Limiting budgetary leeway with the new fiscal rule will require a stronger emphasis on the accuracy of medium-term planning.

Advantages of NPC scenarios:

- This approach **streamlines budget negotiations** by focusing them primarily on new government policies or the form of specific consolidation measures.
- Preparation of the budget through NPC scenarios ensures a transparent way of planning expenditures for individual ministries or budget chapters. They are thus better able to predict the resources to implement existing policies over the longer term.
- By using uniform principles, the **process of allocating resources to existing policies is consistent and fair** in terms of the placement of resources across budget sections.
- At the same time, the NPC scenarios make it easy to track changes in individual budget lines and to disaggregate them transparently into changes caused by:
    - by revising the base year estimate,
    - changes in macro variables such as price or wage growth,
    - revising the cost estimates of newly adopted measures.
- NPC scenarios are a necessity for credible spending limits at the departmental level. An accurate forecast to maintain existing policies thus increases the appropriateness of the level of expenditure ceilings determined also at the level of the budget section.

Slovakia continues its investment management reform, which aims to increase the social return on projects and to make the investment process faster and more transparent. The reform is based on methodologically sound investment plans of the individual chapters, which increase the transparency and predictability of the investment process. It includes the principle of zero-based budgeting introduced from 2021. Only ready and repayable projects are financed in accordance with the prioritised investment plans and to the extent of the budgetary resources available in each year. Inaccurate planning and frequent changes in priorities in the past meant that unprepared projects blocked a large amount of money for a long time at the expense of ready and better investments across sectors.

VI.2. Priorities in structural policies

The quality and inclusiveness of the education system, Slovakia's main structural priority, will be supported by measures in three key areas - inclusion, curriculum reform and reform of the tertiary education . As part of increasing inclusion, access to pre-primary education, including early childhood care, will be promoted. Support teams in primary and secondary education will be strengthened as part of the reform of the

[48] Simplified departmental NPC scenarios.
[49] E.g. the use of specific indices based on individual components of inflation (as a determinant of spending on goods and services, which varies across departments), or the consideration of specific wage machines (doctors, etc.).

councelling system. As part of the National Recovery and Resilience Plan (RRP), by 2026, the kindergarten capacity gap will be filled to ensure legal entitlement to pre-primary education from the age of 3 years. Curriculum reform will improve the literacy and skills pupils need for the 21st century. Accompanying measures to promote educational content change will touch on teacher training and professional development and the opening up of the textbook market. Improving the quality of education and research in universities will be supported by governance reform and changes to system of university funding, including the introduction of performance contracts. The forthcoming *Strategy of lifelong learning* for 2021-2030 will propose measures to increase the flexibility and accessibility of the education system in order to better reflect the needs of adult learners, with an emphasis on the low-educated, and to link education more effectively to the labour market. To promote incentives to participate in educational activities beyond obtaining a formal degree, the strategy also includes a proposal for a pilot scheme of Individual Learning Accounts.

In the area of research, development and innovation, support will focus on improving the quality of outputs and streamlining the funding system. The role of the Government Council for Science, Technology and Innovation of the Slovak Republic (GSTI) as an umbrella body in the management of research, development and innovation policy will be strengthened by transferring it to the Office of the Government of the Slovak Republic. A professional GSTI Secretariat will be established, responsible for the preparation of strategies, analyses and schemes according to the needs of the innovation ecosystem in Slovakia. In order to address the fragmentation of research capacities, processes in supporting agencies will be consolidated, standardised and simplified. An update of the *Smart Specialisation Strategy* will be approved by the end of 2021 *(RIS3)*[50]. From 2022, institutes of the Slovak Academy of Sciences will be transformed into public research institutions (PRIs), which will allow them to engage more in cooperation with the private sector. Until the end of 2022, funding will focus on competitive support schemes, promoting innovation in the private sector, international cooperation and cooperation with universities. A network of 5 European Digital Innovation Hubs and Digital Innovation Centres will be set up during 2022 to provide services to businesses to support the deployment of new technologies and innovation. To reverse the trend of the brain drain, measures in 2022 will also focus on simplification of obtaining permits for highly skilled workers and recognition of their educational qualifications.

The proposed reform of the I. pillar of the pension system[51] pursues the objective of improving long-term sustainability but puts pressure on public finances in the short term. As part of the pension reform, an amendment to the Slovak Constitution[52] has already been adopted in December 2020, which removes the ceiling on the retirement age with effect from January 2023[53]. Without reforming the system, pension spending would rise from 8.3% of GDP in 2019 to 14.2% of GDP in 2070, according to the latest projection, mainly due to an ageing population. Re-linking retirement age to life expectancy growth will reduce expected spending in 2070 by 2.2% of GDP. At the same time, however, the proposal puts pressure on spending by introducing a parental bonus (a tax deduction for children's parents) and a possibility of early retirement after 40 years of service. Over almost the entire projection horizon, these two measures increase pension expenditure by 0.7% of GDP.

The impacts of an ageing population are also addressed by long-term care reforms aimed at improving the quality and efficiency of the system. In order to increase the quality and deinstitutionalisation of long-term care services[54] calls for the expansion, construction and renewal of community, nursing and palliative care capacities will be launched during 2021 and 2022. From 2022, a new social services information system will be launched to allow better monitoring of the area of long-term care. Supervision of social care will also be strengthened in 2022

[50] The updated RIS3 strategy defines not only vertical priority areas for smart specialisation (Innovative Industry for the 21st Century, Mobility for the 21st Century, Digital Transformation, Healthy Society, Healthy Food and Environment), but also horizontal challenges (e.g. human resources, financing, cooperation between actors, legal framework, internationalisation). Adoption of the document is a condition for drawing down funds from the new programming period.

[51] Draft Act amending Act No 461/2003 Coll. on Social Insurance, as amended

[52] Act No. 422/2020 Coll., amending and supplementing the Constitution of the Slovak Republic No. 460/1992 Coll.

[53] As part of this amendment, 3 new principles were also added to the Constitution: 1) childcare cannot have a negative impact on the amount of the pension, 2) working children can allocate part of their taxes or contributions to their parents (the so-called parental bonus), and 3) a person can retire not only at retirement age, but also earlier - if he or she completes a specified number of years of service.

[54] In accordance with the Recovery and Resilience Plan of the Slovak Republic and the National Strategy for the Deinstitutionalisation of the Social Services and Foster Care System (March 2021).

with the creation of a new supervisory authority. In order to ensure a sufficient number of medical assessors for the increasing number of applicants for cash benefits, the possibility for doctors with a specialisation in a field other than medical assessment[55] has been introduced from 2022. It has also been proposed to temporarily abolish the age limit for assessing doctors[56].

The priority in pillars II and III is to improve efficiency in order to increase returns for all savers and ensure a sufficient income in old age. Retirement savings diversify the source of income for individuals in retirement and spread the increase in the cost of the pension system. However, it has faced problems in the long term, mainly due to the inefficient allocation of savings in low-yielding conservative funds and, under pillar III, the high cost of the product. As part of the RRP, in order to improve the efficiency of the savings phase, the Government has committed to introduce a default savings strategy based on the life-cycle principle[57] for new and, over time, existing savers in pillar II. The reform of pillar III envisages the introduction of a personal pension product[58]. In order to increase competition and thus profitability, the proposal opens up the provision of the voluntary pension savings product to a wider range of providers[59]. It defines the minimum framework requirements that the personal pension product provided must meet, e.g. to qualify for state support. While the proposal adequately addresses the conditions for the disbursement of savings, regulatory requirements for the introduction of a default investment life-cycle strategy, risk and investment management, cost-effectiveness or information obligations need to be strengthened to ensure that the main problems of pillar III are addressed.

A number of initiatives aim to support the pandemic recovery of the labour market and to increase the employment of disadvantaged groups. Due to the ongoing third wave of the pandemic, the provision of tools to support affected groups in the labour market continues. From July 2021 to the end of the year, the first aid to employers for job retention was set according to the so-called COVID automaton in the regions. From January 2022, new legislation to support short-time working (Kurzarbeit) in times of crises and emergencies comes into force. Pandemic sick leave and care of a family member continue to be paid for loss of household income due to illness or when caring for a sick child. Ongoing support under active labour market measures in 2021 will focus on employers of disadvantaged or vulnerable people in the form of investment aid to social enterprises and financial contributions to integration enterprises. Sector-focused projects pay support to employers who create positions in the area in agriculture or social services[60]. In order to improve the social and economic inclusion of Roma, a new Strategy for Roma Equality, Inclusion and Participation 2030 was approved in April 2021[61]. The strategy's priority areas focus on employment, education, health and housing. Adoption of follow-up action plans with measures is expected by the end of 2021.

In the health sector, the main objective of reforms and investment in infrastructure is to improve the quality and accessibility of healthcare. Healthcare reform aimed at optimising the hospital network will contribute to better results in inpatient care. In September 2021, legislation was approved by the Government[62], defining the provision of healthcare in hospitals in terms of complexity, frequency and proximity to the patient. In 2022, the first optimal hospital network will be presented in accordance with the proposal. Over a transitory period of 2 to 8 years, according to a set timetable, hospitals will be gradually reprofilised in line with the new legislation. In 2022, it is also planned to approve a new emergency medical services network and, in line with it, a new definition of emergency medical care. As part of the reform of primary outpatient care, new concepts of general medicine will be adopted to support the expansion of the competences of general practitioners and a financial instrument will be set up to

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[55] Draft Act amending Act No. 447/2008 Coll. on cash allowances. Until the end of 2021, this activity can only be carried out by doctors specialising in medical assessment.

[56] Under the current wording of the Civil Service Act, in December 2021, more than 25 % of the postgraduate doctors whose civil service relationship has already been extended under the current legislation by three years beyond the age of 65 would have to terminate their civil service relationship because of the age limit. It is proposed to re-extend the duration of the civil service relationship of post-doctors whose civil service relationship would otherwise have ended on 31 December 2021, up to a maximum of 31 December 2024. At the same time, the possibility of recruiting a medical assessor who has already reached the age of 65 to a civil servant's post is also proposed, with the civil servant's employment to be terminated by 31 December 2024 at the latest.

[57] IFP analysis (2019): Defaul strategy in pension saving: The case of Slovakia.

[58] Personal Pension Product Amendment Act

[59] Beyond traditional supplementary pension companies, provision will be allowed to other financial institutions such as banks, insurance companies or securities dealers.

[60] Until the beginning of the pandemic, employment was also promoted in the cultural heritage sector or in one's own community (village, school).

[61] Roma Equality, Inclusion and Participation Strategy 2030 (April 2021)

[62] Draft law on the categorization of inpatient health care.

support the emergence of new providers of general outpatient care according to zoning criteria. To encourage the arrival of health professionals from abroad the recognition of documents and qualifications will be simplified.

Initiatives in the field of environmental improvement focus on waste management, renewable energy sources (RES) and air quality, where Slovakia is lagging behind within international comparison. In the coming years, support for the green economy will focus on increasing the use of renewable energy sources, improving energy infrastructure, decarbonising the economy, adapting to climate change, and sustainable passenger and freight transport. The amendment of the legislation in the electricity sector by the end of 2022 will bring, in addition to new entities on the electricity market, new business models, which will indirectly support a more massive integration of RES in the electricity sector. To increase energy efficiency, the comprehensive renovation of public and private buildings will be accelerated from 2022 onwards, including through guaranteed energy services. *The National Emissions Reduction Programme, approved in March 2020, proposes measures to achieve national commitments to reduce pollutant emissions* [63]. It is one of the key documents of the forthcoming comprehensive Air Protection Strategy of the Slovak Republic until 2030. A deposit system for beverage packaging will be introduced from January 2022. This will support Slovakia's commitment to increase the current collection rate of this type of waste from 60% to 90% in 2025. Waste legislation approved in September 2020 foresees the creation of a waste management information system to improve control over waste flows.

Reform efforts also focus on digital government services and digital infrastructure. Adoption of a binding methodology for assessing and evaluating digital economy investment projects in 2021 will improve the quality of services provided to citizens as well as cost-effectiveness. In order to automate processes to reduce the number of steps needed to resolve a life situation, the National Concept of Informatisation of Public Administration 2021-2030 will be approved with the addition of an investment plan for upcoming life situations. In order to approve projects, a grant scheme will be set up during 2022 for public authorities to implement digital innovations in the delivery of public services. The scheme will also serve as a co-financing mechanism for projects that succeed in directly managed EU programmes. By the end of 2022, a National Digital Skills Strategy will be developed, defining a strategic approach to education for the development of the digital skills of the population, with a focus also on seniors.

In order to improve the business environment, a number of reform proposals address administrative and regulatory barriers for doing business. In order to increase entrepreneurial activity, according to the RRP, anti-bureaucratic packages of measures will be gradually adopted annually and the "one in - two out" rule will be introduced. In order to digitise processes, legislation governing insolvency processes will be adopted in 2022. The new commercial register and insolvency and restructuring proceedings will be concentrated in fewer courts. In order to speed up, simplify and professionalize public procurement, an amendment to the Public Procurement Act was approved in October 2021 in line with the RRP. In order to simplify and speed up construction, a reform of the construction procedure is being implemented in line with the objective of the Manifesto of the Government of the Slovak Republic.

In order to fight corruption and strengthen the integrity and independence of the judiciary, a number of legislative changes are foreseen to be implemented. The major constitutional reform of the judiciary approved in December 2020 strengthened the powers and competences of the judiciary for its internal control (e.g. reform of the creation and competences of the Judicial Council, establishment of the Supreme Administrative Court, introduction of new criminal offences) and introduced safeguards to strengthen the separation of powers (rotation principle for the election of constitutional judges, natural rotation of the judiciary). The introduced reform of the judicial map, scheduled to take effect in the first quarter of 2022, is one of the tools to achieve an efficient judiciary and to break the corruption ties in the judiciary. The result should be a new network of first instance general and administrative courts, general courts of appeal and the Supreme Administrative Court of the Slovak Republic. At the same time, it will create space for the specialisation of judges in the main agendas in order to make the judiciary

[63] National Emission Reduction Programme of the Slovak Republic

more efficient. As of August 2021, the Office for the Administration of Seized Assets, which will streamline the seizure and management of criminal assets, officially began operating.

ANNEXES

Annex 1 - Comparison with the Stability Programme and the European Commission forecast

Compared to the Stability Programme, the draft budgetary plan expects the economy to perform slightly worse by 2022, which is reflected in most indicators. The March 2021 macroeconomic forecast, on which the Stability Programme for 2021-2024 was based, assumed real GDP growth of 3.3% in 2021 and 6.3% in 2022. The latest September 2021 forecast of Macroeconomic Forecasts Committee slightly raises growth in 2021 and lowers growth in 2022. Behind the better performance is the weaker impact of the economic shutdown in the first quarter of 2021, and lower real growth next year is due to high inflationary pressures that will dampen real incomes and household consumption.

TABLE 10 - Forecast of selected indicators of the Slovak economy

No.	Indicator	unit	Stability programme 2021	2022	2023	2024	Draft budget 2021	2022	2023	2024
1	GDP, current prices	bill. eur	95.4	103.5	109.3	112.4	97.4	105.5	113.9	117.2
2	GDP, constant prices	%	3.3	6.3	2.8	0.3	3.7	4.2	5.0	0.7
3	Final consumption of households and non-profit institutions serving households	%	-3.3	6.8	2.7	2.4	0.2	2.4	3.6	3.9
4	Final consumption of general government	%	3.6	0.9	3.7	-0.7	4.9	4.1	1.8	-0.4
5	Gross fixed capital formation	%	0.8	11.9	8.4	-10.9	-0.3	16.7	15.2	-12.2
6	Export of goods and services	%	10.6	4.8	4.2	3.6	10.5	3.1	6.0	4.0
7	Import of goods and services	%	8.8	5.3	4.1	2.0	10.9	3.9	6.5	2.4
8	Output gap (share of potential output)	%	-2.6	0.9	0.9	-1.0	-1.7	-0.4	1.1	-1.4
9	Average monthly earnings for the economy (nominal growth)	%	4.9	5.0	4.7	4.1	5.4	5.5	5.1	4.8
10	Average employment growth, according to the Labour Force Survey	%	-0.2	0.9	1.1	0.3	-1.3	0.9	1.0	0.4
11	Average employment growth, ESA 2010	%	-0.4	0.9	1.2	0.3	-0.8	0.8	1.0	0.4
12	Average unemployment growth, according to the Labour Force Survey	%	7.1	6.5	5.4	4.7	7.0	6.7	5.7	5.2
13	Average registered unemployment rate	%	7.6	7.0	5.9	5.2	8.3	8.0	6.9	6.3
14	Harmonised Index of Consumer Prices (HICP)	%	1.1	2.2	2.5	2.3	2.3	4.0	3.1	1.5
15	Current account balance (as a share of GDP)	%	-0.8	-0.8	-0.7	-0.3	0.3	0.2	0.1	0.4

Source: Ministry of Finance of the Slovak Republic

TABLE 11 - Comparison of budgetary objectives with the Stability Programme

	ESA code	2020 S	2021 OS	2022 Draft general government budget	2023 Draft general government budget	2024 Draft general government budget
		% GDP	% GDP	% GDP	% GDP	% GDP
General government objective balances	**B.9**					
Stability programme (1)		-6.16	-9.93	-5.12	-4.11	-3.84
Draft Budgetary Plan (2)		-5.50	-7.92	-4.94	-2.68	-2.60
Difference (2-1)		**0.66**	**2.01**	**0.18**	**1.43**	**1.24**

OS – Expected reality
Draft general government budget –

Source: Ministry of Finance of the Slovak Republic

Annex 2 – Forecast assessment by macroeconomic and tax revenue forecasts committees

The draft budget plan for 2022-2024 is based on the macroeconomic and fiscal projections for the 2022-2024 horizon of September 2021. The macroeconomic scenario as well as the projected tax revenues are subject to ongoing discussion, approval and scrutiny by the professional community through committees composed of national experts from the public and private sectors. Both the deadlines for the publication of forecasts and the principles for the operation of the committees are enshrined in the Fiscal Responsibility Act.

The September 2021 macroeconomic forecast of the Ministry of Finance (MoF) is slightly higher than the median of the other members of the Macroeconomic Forecasting Committee with respect to the impact on budget revenues for 2022. This impact is expressed as a weighted average of the individual relevant bases for budget revenue, using as weights the shares of each tax in total budget revenue. The difference lies mainly in the MoF's higher estimate for 2022 for nominal average wage growth and nominal household consumption. On the other hand, the MoF estimate is lower in terms of GDP, employment and real consumption. The MoF forecast was assessed as realistic by all Committee members present (NBS, Council for Budget Responsibility (RRZ), Slovenská sporiteľňa, Tatrabanka, Infostat, Slovak Academy of Sciences (SAV), Unicredit, ČSOB).

TABLE 12 - Assessment of the September forecast of the Ministry of Finance of the Slovak Republic in the Committee on Macroeconomic Forecasts

Committee member	Characteristics of the forecast
NBS, Council for Budget Responsibility (RRZ), Slovenská sporiteľňa, Tatrabanka, Infostat, Slovak Academy of Sciences (SAV), Unicredit, ČSOB	realistic

Source: Macroeconomic Forecasts Committee

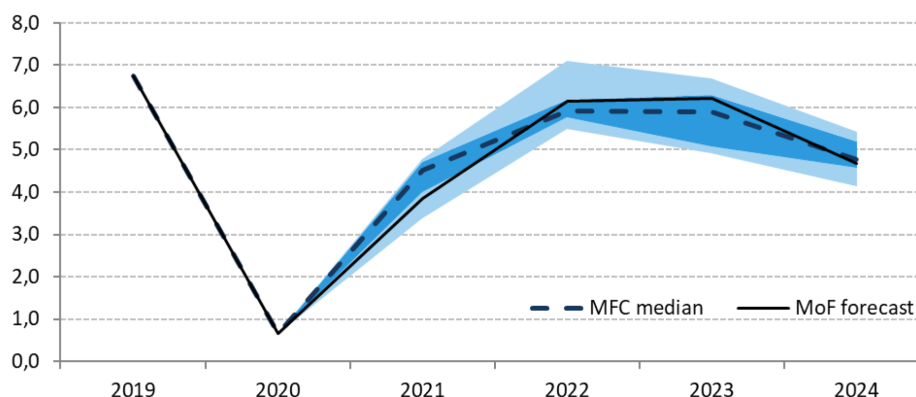
TABLE 13 - Average forecast of the members of the Committee* (excluding the Ministry of Finance of the Slovak Republic) and forecast of the Ministry of Finance of the Slovak Republic

	2020	2021		2022		2023		2024	
in %, unless otherwise specified		Committee	Ministry of Finance of the Slovak Republic	Committee	Ministry of Finance of the Slovak Republic	Committee	Ministry of Finance of the Slovak Republic	Committee	Ministry of Finance of the Slovak Republic
Gross domestic product; real growth	-4.8	4.2	3.7	5	4.2	4.1	5	2.1	0.7
Gross domestic product at current prices; billion euro	92.1	97.4	97.4	105.2	105.5	111.8	113.9	116.8	117.2
Household final consumption; real growth	-1	1.3	0.2	3.5	2.4	3	3.6	3	3.9
Household final consumption; nominal growth	1.1	3.8	2.5	6.6	6.9	5.2	6.8	5.2	5.6
Average monthly wage; real growth	1.8	2.8	3.1	1.3	1.7	1.9	2.9	3.2	2.8
Average monthly wages; nominal growth	3.8	5.6	5.4	4.9	5.5	5.4	5.1	4.9	4.8
Employment growth (statutory reporting)	-1.8	-0.6	-0.8	1.1	0.6	0.8	1	0.4	0.4
Consumer price index; average growth; CPI	1.9	2.7	2.5	3.3	4.2	2.3	3.1	2.2	1.5
Current account balance; share of GDP	-4.8	4.2	3.7	5	4.2	4.1	5	2.1	0.7

** Macroeconomic Forecasts Committee*

Source: Macroeconomic Forecasts Committee

CHART 29 - Comparison of macroeconomic baseline [64] forecasts for budget revenue with Committee members



Source: Ministry of Finance of the Slovak Republic

BOX 9 – Independent Committees for the Estimation of Macroeconomic Developments and the Estimation of Tax Revenue Developments

The Macroeconomic Forecasts Committee and the Tax Revenue Forecasts Committee are established in accordance with the Constitutional Act 493/2011 Z Fiscal Responsibility Act as an advisory body to the Minister of Finance. The committees aim to achieve greater transparency, objectivity and quality of macroeconomic and fiscal forecasts. According to the Constitutional Law, the committees shall produce forecasts at least twice a year, by 15 February and 30 June of the current financial year. However, as has been long-established practice, for the purposes of the budgetary process, they also produce forecasts up to the end of September. In exceptional cases, a meeting of the Committee may be convened by the Chairman of the Committee, by the Minister of Finance, or by a supermajority of the members of the Committee.

In addition to the Ministry of Finance, representatives of institutions independent of the government (NBS, Slovak Academy of Sciences (SAV), Chancellery of the Council for Budget Responsibility (KRRZ), **Infostat and private banks) are members of the committees.** The members of the Macroeconomic Forecasting Committee rate the Treasury's macroeconomic forecast as *conservative, optimistic or realistic*. Members of the Tax Revenue Forecasts Committee rate the Treasury Department's tax forecast by submitting their forecast; their rating is calculated automatically based on the margin of error. **A Ministry of Finance forecast is accepted as the Committee's forecast if a majority of the members consider it to be *conservative or realistic*.** If the forecast does not receive such an assessment, the Ministry of Finance is obliged to revise the forecast and resubmit it to the Committee for consideration. The process is repeated until the Ministry of Finance's forecast is accepted as the Committee's forecast.

During 2021, the Tax Revenue Forecasts Committee was expanded to include forecasts of selected non-tax revenues and expenditures, which are influenced in no small part by developments in the economy. Taking account of economic developments and assessing other specific assumptions in the forecasts through a panel of experts from the public and private sectors means transparently consulted estimates and a more accurate budget. In March and September 2021, the forecasts were expanded to include non-tax revenues of around EUR 1.1 billion and expenditures of around EUR 7-8 billion. On the revenue side, these are revenues from the sale of emission permits, revenues from tolls and motorway stickers, a levy on gambling and dividends from state-owned enterprises. On the expenditure side, unemployment benefits, sickness benefits and old-age pensions have been added.

Tax Revenue Forecasts Committee

Ministry Of Finance Of The Slovak Republic presented its updated medium-term tax revenue forecast for 2020-2024 at the Tax Revenues Forecasts Committee meeting on 23 September 2021. The medium-term forecast of tax

[64] Macroeconomic bases for budget revenue (the weighting of indicators depends on the share of individual taxes in total tax and social security contributions); Wage base (employment + nominal wages) - 51.1%, Nominal private consumption - 25.7%, Real private consumption - 6.6%, Nominal GDP growth - 9.9%, Real GDP growth - 6.7%.

revenues and social contributions of the Ministry Of Finance Of The Slovak Republic was considered **realistic** by all Committee members**.**

TABLE 14 - Assessment of the forecast by the Ministry of Finance of the Slovak Republic in the Tax Forecast Committee

Committee Member	Characteristics of the forecast
NBS, Infostat, Tatra banka, ČSOB, Chancellery of the Council for Budget Responsibility (KRRZ), SLSP, UniCredit Bank, VÚB	realistic

Annex 3 – Forecast of general government gross debt by cash flow

In terms of cash factors influencing debt, covering the cash deficit of the general government budget will dominate at the budget horizon. Debt-increasing sovereign bond issues will not be fully sufficient to repay the principal of the debt while covering the newly created cash deficits of the state budget. The release of funds accumulated in the State Treasury (ST) is therefore expected to be higher over the entire horizon. The lending activity of other general government entities will contribute negatively to the overall debt burden due to the overhang of new lending over principal repayments.

TABLE 15 - Cash effects on the change in nominal gross general government debt (EUR million))

	2018	2019	2020	2021 OS	2022 N	2023 N	2024 N
A. Government gross debt (as of 1 January)	**43 572**	**44 384**	**45 277**	**55 010**	**59 963**	**64 884**	**66 746**
B. Total YoY change in general government gross debt	**811**	**893**	**9 733**	**4 953**	**4 921**	**1 862**	**2 031**
- cash deficit state budget	1 182	2 201	7 758	8 742	5 474	3 399	3 180
- MoF resources used to finance the cash deficit of the state Treasury	-498	-1 586	1 767	-4 235	-711	-1 684	-1 473
- indebtedness of other general government entities	111	248	85	-100	38	41	22
of which: the Railways of the Slovak Republic (ŽSR) + ŽSSK (Slovak Railway Company)	-3	27	21	-144	-38	-5	-9
of which: NDS (National Motorway Company)	-37	-42	-30	-37	-37	0	0
of which: Municipal transport undertakings	-4	-15	9	15	39	33	31
of which: Local government (municipalities and higher territorial units)	-48	11	16	-4	7	-8	-17
- modification of the guarantees of the Slovak Republic in the EFSF	0	-21	0	0	0	0	0
- emission discount	7	4	28	22	134	156	305
- discount at maturity	-7	2	-16	-2	-11	-49	-6
- other	16	24	110	526*	-2	-1	3
C. Government gross debt (as of 31 December)	**44 384**	**45 277**	**55 010**	**59 963**	**64 884**	**66 746**	**68 778**
in % GDP	**49.6**	**48.1**	**59.7**	**61.5**	**61.5**	**58.6**	**58.7**
D. Change in gross debt compared to the Stability Programme (p.p.)	**0.5**	**0.5**	**-0.8**	**-2.6**	**-4.0**	**-6.0**	**-7,2**
of which: contribution of forecast changes nom. GDP	0.1	0,2	-0.6	-1.3	-1,2	-2.4	-2.5
contribution of the change in the forecast for nominal debt	0.3	0.3	-0,2	-1,2	-2.8	-3.6	-4.7
p.m. contribution of the Slovak Republic to the ESM	0	0	134	0	0	0	0

Note: Plus items increase government debt as of 31 December of the respective year, minus items decrease debt.

OS – expected reality at year-end; N – draft general government budget

Source: Ministry of Finance of the Slovak Republic

Annex 4 – Structural balance

Calculation of the structural balance

In a first step, the nominal general government balance is cyclically adjusted for the impact of economic fluctuations (estimated using the output gap, i.e. the difference between the actual and potential levels of GDP. The output gap estimate is based on the current macroeconomic forecast of the Ministry of Finance of the Slovak Republic from September 2020 (**BOX 2**). The estimate of the sensitivity of the general government balance to changes in the output gap based on the OECD[65] methodology is taken over in full by the Ministry Of Finance Of The Slovak Republic from the EC. In the next step, the adjusted balance is adjusted for the impact of one-off and temporary measures, the fiscal impact of which is not repeated in subsequent years. For the purposes of the draft budget plan, the Ministry Of Finance Of The Slovak Republic shall proceed with their identification in accordance with the EC methodology.

The EC methodology[66] characterises a one-off measure as a temporary measure that is not permanent and has arisen independently of government decisions. The EC has created a directive on the classification procedure of one-off measures:

1. **1st Principle:** Only a temporary, non-recurring impact on general government revenues or expenditures may be classified as a one-time impact.
2. **2nd Principle:** The one-off nature of the measure cannot be imposed by law or by an autonomous government decision.
3. **3rd Principle:** Components of revenue or expenditure characterised by high volatility should not be considered as one-off impacts. The cyclical component in the structural balance calculation is used to smooth the time series.
4. **4th Principle:** Deliberate government decisions that lead to an increase in the deficit cannot be classified as one-off effects.
5. **5th Principle:** Only measures with a significant impact on the general government budget (more than 0.05% of GDP) should be considered as one-offs.

All typical one-off measures are described in the chapter 3.3 (Report of Public Finances in EMU[67]). In addition, the EC has identified specific exceptions and procedures to them, where an impact that undermines the above principles can also be considered as a one-off measure, these cases are also listed in the chapter. A number of measures are below 0.05% of GDP in terms of impact but are materially related to the coronary crisis as a whole, which is why we include them in the list of one-off measures.

The Draft Budgetary Plan of the Slovak Republic for 2022 foresees the following one-off measures over the horizon 2020-2024.

TABLE 16 - List of one-off measures

	2020	2021	2022	2023	2024
Total Measures 1 to 4B (Kurzarbeit)	-773	-1463	-330	-	-
Kurzarbeit for kindergartens and elementary art schools	-59	-24	-	-	-
Promotion of tourism and gastro business	-6	-228	-	-	-
Promoting entrepreneurship in the cultural and creative industries	-	-35	-	-	-
Reimbursement of rent	-40	-95	-	-	-
Support for jobseekers	-49	-	-	-	-
SOS allowance	-15	-74	-45	-	-

[65] The original methodology was presented in Girouard, N., André, Ch. (2005): Measuring cyclically-adjusted budget balances for OECD countries. In 2014, the process of updating the methodology and incorporating new data for the calculation of elasticities took place. The methodology was approved by Member States in September 2014.
[66] Vade Mecum on the Stability and Growth Pact – 2016 Edition – Guiding principles p.28.
[67] Report on Public Finances in EMU, December 2015.

Parental allowance (extension during the state of emergency)	-13	-56	-50	-	-
Unemployment benefit (extension)	-32	-40	-	-	-
One-off child allowance	-	-75	-	-	-
Sickness benefits - benefits paid above 2019 level (indexed)	-106	-191	-27	-	-
Care of a family member - benefits paid above 2019 level (indexed)	-133	-68	-23	-	-
Remission of social contributions for April	-57	-	-	-	-
Deduction of corporate losses from 2015-18	-28	-	-	-	-
Non-repayment of part of deferred social contributions	-3.6	-6	-	-	-
Zero value added tax on FFP2/3 respirators	-	-10	-	-	-
Rewards for healthcare workers	-13	-49	-40	-	-
Payment to specialist doctors	-138	-	-	-	-
Increased expenditure - ventilators and other	-39	-	-	-	-
Expenditure on testing	-124	-437	-	-	-
Cost of medicines and vaccinations	0	-155	-153	-	-
Equipment and other expenditure	-63	-1	-	-	-
Creation of contingency stocks (excluding tests)	-33	-	-	-	-
Remuneration of front-line staff (non-MH)	-64	-	-	-	-
Goods and services related to COVID-19 (disinfection, other)	-22	-	-	-	-
Grant schemes to different sectors/entities	-16	-33	-	-	-
Economic mobilisation measures	-24	-109	-90	-	-
Contribution to the capital of the Slovak Guarantee and Development Bank	-50	-	-	-	-
Contribution to the capital of Air Traffic Services	-13	-	-	-	-
Vaccination premium and brokerage bonus	-	-42	-	-	-
Invoked COVID guarantees	-25	-	-	-	-
Others	-18	-2	-9	-	-
EU funding	343	148	-	-	-
Payment of VAT by the concessionaire of the D4/R7 construction	71	130	-	-	-
Total	**-1543**	**-2913**	**-767**	**0**	**0**

Source: Ministry of Finance of the Slovak Republic

Annex 5 - Expenditure rule

The revised Stability and Growth Pact introduced the expenditure rule as an additional tool for analysing a country's fiscal position. It reflects the YoY growth of the expenditure aggregate net of revenue measures, which, compared to the reference rate of allowed expenditure growth, allows to assess progress in fiscal consolidation, similarly to the evolution of the structural balance.

According to the expenditure rule, government spending should not grow faster in real terms than the average potential growth of the economy. These expenditures can only grow at a higher rate if additional revenue measures are implemented, which are confirmed by the quantification of an independent Committee (we are talking about discretionary measures)[68]. For countries that have reached their medium-term (budgetary) objective (MTO), expenditure growth can closely replicate the economy's potential. For countries that have not yet reached the MTO, the pace of expenditure growth must also reflect the fiscal consolidation needed to achieve it. In this case, the potential growth rate of the economy is corrected for the necessary consolidation effort.

Expenditure developments are adjusted for factors outside the government's control. This includes interest expenditure, changes in unemployment benefit expenditure resulting from the current economic cycle and expenditure financed by EU funds. Given the high volatility of government investment, the level is smoothed to the average of the current and three previous years[69]. The nominal growth of expenditure adjusted in this way is converted into real growth via the GDP deflator to make it comparable to the expenditure rule.

TABLE 17 – Expenditure rule

		2019	2020	2021	2022
1. Total expenditures	EUR million	**39,973**	**43,816**	**48,531**	**49,387**
2. Interest costs	EUR million	1,163	1,105	925	918
3. EU-funded expenditure (capital)	EUR million	587	574	715	613
3a. Expenditure covered by EU resources (total)	EUR million	890	931	1,205	1,568
4. Capital expenditure covered by national resources	EUR million	2,763	2,617	3,355	4,175
5. Smoothed capital expenditure (national sources 4-year moving average)	EUR million	2,505	2,596	2,834	3,228
6. Cyclical expenditure on unemployment benefits	EUR million	-27	52	25	6
7. Expenditure fully covered by automatic revenue increases	EUR million	0	0	0	0
8. Primary expenditure aggregate (1-2-3a-4+5-6-7)	EUR million	**37,688**	**41,707**	**45,855**	**45,947**
9. YoY change in primary expend. aggregate (8t-8t-1)	EUR million	2,712	4,019	4,148	92
10. Change in revenue due to discretionary revenue measures	EUR million	177	-449	59	51
11. One-off revenue measures (COVID19)	EUR million	0	-89	73	16
12. One-off measures on the expenditure side (COVID19)	EUR million	0	-1,525	-1,502	2,260
13. Methodological modifications	EUR million	0	0	0	0
14. Nominal growth of aggregate expenditure net of revenue measures ((9t-10t)/8t-1)	%	7.2	7.6	6.4	5.1
15. Real growth of aggregate expenditure net of revenue measures	%	4.6	5.0	5.1	1.1

[68] Positive cyclical revenues in boom times (unrealised through discretionary measures) allow spending to rise above the economy's potential. The expenditure rule monitors this unintended fiscal impact, as the temporary increase in revenue from unrealised measures should be used to achieve the MTO.
[69] Vade Mecum on Stability and Growth Pact, p. 30.

16. Spending rule (reduced reference rate of potential GDP growth)	p.p.	2.0	2.8	1.9	1.6
p. m. GDP deflator	*%*	*2.5*	*2.5*	*1.3*	*3.9*

Note: in 2023 Slovakia will be in the corrective arm of the Pact and the expenditure rule will not apply.

Source: Ministry of Finance of the Slovak Republic

Annex 6 – Discretionary revenue measures (DRM)

The Commission's methodology defines discretionary revenue measures as measures of a legislative nature having an effect on general government revenue. The measures are evaluated through so-called additional effects (marginal changes) to the measures. Distinction is made as to whether a measure is temporary or one-off. A permanent measure is recognised as having an effect in the first year (at the time of entry into effect) and as having no effect in the other years. In other words, the change in the effect of the measure in following years due to the macroeconomic development is not taken into account. If there a difference in effect arises due to postponed applicability of the measure, only the marginal change is recognised.[70] For one-off revenue measures, the effect is recognised in one year, and a shortfall in the same amount in the next year, i.e. the total effect of the measure in two consecutive years is zero.

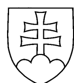
TABLE 18 - Discretionary measures – year-on-year impact of measures (EUR million, ESA2010)

	2020	2021	2022	2023	2024
Introduction/amendment/abolition of 13th and 14th salary	11,1	20,6	0	0	0
Exemption from income taxation from the sale of ownership shares	-23	0	0	0	0
Change of VAT collection efficiency	-24	0	0	0	0
Measures related to tobacco products	0	109	90	69	0
Tax settlement from social contributions	0	0	0	49	-4
Fully-funded pension pillar (II. pension pillar)	-49	-28	-66	-63	-69
Abolition of special levy rate in regulated sectors	0	-17	0	0	0
Special levy in banking sector and his abolition in mid 2020	1	-120	0	0	0
Increase in the limit for advance payments (from 2 500 to 5 000 EUR)	0	-11	0	0	0
Carry-forward tax losses for other non-microcompanies (max. 50 % tax base in 5 years)	0	36	-6	0	0
Individual volume of depreciation of assets for microcompanies	0	-15	0	0	0
15 % rate of corporate income tax for companies with turnover up to 100 th./amendment up to 49,79th., 21% for others	-38	19	0	0	0
Personal income tax (business) reduced to 15% with turnover up to EUR 100 th, amendment 49,79 th	-19	0	0	0	0
Increase of the non-taxable part of the tax base to 21 times of the subsistence minimum	-111	0	0	0	0
Reduced VAT rate for other foodstuffs	-81	0	0	0	0
Non-cash benefit for employees for transport (100 euro)	-6	-12	0	0	0
Measures to promote labor mobility	-34	0	0	0	0
Changes of tax rates of Property taxes	74	2	0	0	0
Suspension of tax audits and tax proceedings	-13	13	0	0	0
General pardon on social and health contributions (closed business)	-58	58	0	0	0
Possibility to include losses from 2014 (loss-carry forward) already in the current 2019 tax returns	-28	28	0	0	0
Correction of the VAT base on the supply of goods or services	0	-22	0	0	0
Abolition of the VAT exemption for shipments up to 22 euros from third countries	0	11	12	0	0
Changes in motor vehicle taxation	-23,7	0	0	0	0
Deffered of social security contributions in 2021	0	-21	4	13	0
Deferred social security contributions payments	-28	19	7	0	0
Temporary exemption of respirators FFP2 and FFP3 from VAT	0	-10	10	0	0
	-449,4	**58,8**	**50,9**	**68,2**	**-72,4**

[70] As an illustrative example to explain the operation of DRM: A legislative measure with an estimated effect of 200 is adopted in the middle of the year, i.e. its total effect for the year is 100. In the next year, the total effect is 200, but only the marginal difference of the two effects will be recognised, i.e. 100. All in all, the total effect is 200, but it is split between two years.

Annex 7 – Description of the various measures taken to combat coronavirus

			2020		2021		2022		Spolu	
	EKRK	ESA	in mill.	% GDP	in mill.	% GDP	in mill.	% GDP	in mill.	% GDP
Total direct aid			**1959**	**2.13**	**3182**	**3,27**	**767**	**0.73**	**5908**	**6.12**
Support for maintaining employment			**927**	**1.01**	**1844**	**1.86**	**330**	**0.31**	**3067**	**3.18**
Total Measures 1 to 4B (Kurzarbeit)	642032	D.62	773	0.84	1463	1.49	330	0.31	2556	2.64
Kurzarbeit for kindergartens and elementary art schools	642032	D.62	59	0.06	24				59	0.06
Promotion of tourism and gastro business	644	D.3p	6		228	0,23			234	0,23
Promoting entrepreneurship in the cultural and creative industries	644	D.3p			35	0.04			35	0.04
Reimbursement of rent	644	D.3p	40	0.04	95	0.10			135	0.14
Support for jobseekers	642	D.62	49	0.05					49	0.05
Social assistance (including pandemic care of a family member and sick leave)			**301**	**0.33**	**504**	**0.52**	**145**	**0.14**	**953**	**0.98**
SOS allowance	642032	D.62	15	0.02	74	0.08	45	0.04	138	0.14
Parental allowance (extension during the state of emergency)	642041	D.62	13	0.01	56	0.06	50	0.05	119	0.12
Unemployment benefit (extension)	642033	D.62	32	0.04	40	0.04			72	0.08
One-off child allowance					75	0.08			75	0.08
Sickness benefits - benefits paid above 2019 level (indexed)	642015	D.62	106	0.12	191	0,20	27	0.03	324	0.34
Care of a family member - benefits paid above 2019 level (indexed)	642015	D.62	133	0.14	68	0.07	23	0.02	225	0,24
Remission of taxes and social security contributions			**88**	**0.10**	**16**	**0.02**			**104**	**0.11**
Remission of social contributions for April		D.61	57	0.06					57	0.06
Deduction of corporate losses from 2015-18		D.51B	28	0.03					28	0.03
Non-repayment of part of deferred social security contributions		D.61	4	0.00	6				9	0.00
Zero value added tax on FFP2/3 respirators		D.211			10	0.01			10	0.01
Increased health expenditure			**377**	**0.41**	**641**	**0.66**	**193**	**0.18**	**1211**	**1,25**
Rewards for healthcare workers	610, 620	D.1	13	0.01	49	0.05	40	0.04	102	0.10
Payment to specialist doctors		D.99	138	0.15					138	0.15
Increased expenditure - ventilators and other	630	P.2	39	0.04					39	0.04
Expenditure on testing	630, 710	P.2, P.51	124	0.13	437	0.45			561	0.58
Cost of medicines and vaccinations	630	P.2		0.00	155	0.16	153	0.14	308	0.30
Equipment and other expenditure	630	P.2	63	0.07	1				63	0.07
Other measures			**266**	**0,29**	**187**	**0,21**	**99**	**0.09**	**572**	**0.60**
Creation of contingency stocks (excluding tests)	630	P.2	33	0.04		0.00			33	0.04
Remuneration of front-line staff (non-MH)	610, 620	D.1	64	0.07					64	0.07
Goods and services related to COVID-19 (disinfection, other)	630	P.2	22	0.02					22	0.02
Grant schemes to different sectors/entities	644	D.3p	16	0.02	33	0.03			49	0.05
Economic mobilisation measures	630	P.2	24	0.03	109	0.11	90	0.09	223	0,22
Contribution to the capital of the Slovak Guarantee and Development Bank		D.99	50	0.05					50	0.05
Contribution to the capital of Air Traffic Services		D.99	13	0.01					13	0.01
Vaccination premium and brokerage bonus	640	D.7			42				42	0.00
Others	630	P.2	43	0.05	3	0.02	9	0.01	75	0.08
EU funding			**343**	0.37	**148**	0.14			**481**	**0.51**
Total direct aid excluding EU funds			**1616**	**1.76**	**3043**	3.12	767	0.73	**5426**	**5.61**
									0	**0.00**
p.m. Deferral of taxes and social security contributions (no impact on the deficit)			**459**	**0.50**	**57**	**0.06**			**516**	**0.56**
Deferral of corporate income tax returns			187	0,20					187	0,20



Shift of corporate/natural person income tax prepayments in the event of a 40% drop in sales			249	0,27					249	0,27
Deferment of health contributions for March			6	0.01					6	0.01
Deferral of social contributions for March, May, June, July (impact in 2020)			17	0.02					17	0.02
Moving the due date of the deferred social security contributions from 2020 to June 2021					28	0.03			28	0.03
Deferral of social contributions for December until June 2021					5	0.00			5	0.00
Deferral of social contributions for 2021 (January, February, March) until June 2021					24	0.02			24	0.02
p. m. Bank guarantees (no direct impact on the deficit)			**1038**	**1.13**	**337**	**0.35**			**1375**	**1.47**
Slovenská záručná a rozvojová banka - contracted de minimis scheme			65	0.07	41	0.04			106	0.11
Eximbanka - contracted de minimis scheme			81	0.09	15	0.01			96	0.10
SIH - contracted de minimis scheme			343	0.37	131	0.13			474	0.51
The grand scheme			550	0.60	150	0.15			700	0.75
p.m. Deferred repayments (banking sector measure)			**489**	**0.53**	**96**	**0.10**			**585**	**0.63**
p.m. Transfers within the general government			**979**	**1.06**	**300**	**0.31**			**1 279**	**1.37**
Transfers Railways of the Slovak Republic (ŽSR), ŽSSK (Slovak Railway Company) and NDS (Národná diaľničná spoločnosť)			120	0.13					120	0.13
Repayable financial assistance to municipalities and towns			152	0.16					152	0.16
Deposit into the Všeobecná zdravotná poisťovňa (Health Insurance Company)			198	0,22					198	0,22
Transfer Social Insurance Agency			459	0.50	300	0.31			759	0.81
Miscellaneous increased current transfers to other general government			50	0.05					50	0.05
All measures together			**4 924**	**5.35**	**3 971**	**4.08**	**767**	**0.73**	**9 662**	**10.15**

** The impact of sick leave and care of a family member leave is quantified through the increase in benefits compared to 2019, when indexing the calculation base for 2021 and 2022. Thus, some sick leave and care of a family member leave that were not classified as pandemic are also counted.

Direct aid measures

Reimbursement to sick employees in quarantine or home isolation, or employees caring for a member of the household, of 55% of their gross salary[71]. The possibility of drawing sick leave due to quarantine or home isolation has been introduced. The state temporarily reimburses sick pay from the first day[72] at 55% of previous earnings. A working parent with a child aged 11 or younger can draw sick pay during the whole period of school and nursery closures[73]. Parents of sick or quarantined children are also eligible. At the same time, public revenue from personal income tax and social security contributions will fall as people receive benefits. During April and May 2021 the replacement rate was increased to 75% of gross pay for both benefits.

Other social assistance measures: 1. Extension of unemployment benefit payments beyond the maximum benefit period. The first round took place between March and August 2020, the second between March and May 2021. 2. Extension of entitlement to parental allowance beyond the child's 3rd birthday. 3. SOS contribution as a help for all those who did not get to other financial help. The target group is, for example, employees working on an agreement basis. 4. A one-off increase in child benefit of EUR 333 for families with children in material need. Parents of other dependent children will receive a one-off increased allowance of EUR 100.

Employment maintenance allowance for firms hit by the crisis. Employers who retain jobs during the state of emergency can apply for a contribution to reimburse the wage costs of employees[74]. Until September 2021, it was possible to apply for a flat-rate allowance, the amount of which depended on the drop in sales[75]. It concerned

[71] With a corresponding limitation on the maximum amount of the daily assessment base.

[72] Previously, from day 11 - the first 10 days were paid by the employer, with the first three days only at 25% of previous earnings.

[73] Until now, nursing benefits have been paid for a maximum of 10 days per diagnosis. If the child is sick or disabled, the care allowance is released in a similar way for parents with children up to the age of 16 or 18 (disabled). The parent remains socially insured during the entire period of receipt of the sickness benefit, while being exempted from the obligation to pay the insurance premiums.

[74] From September 2021, employers who retain jobs during the state of emergency will have a reduced reimbursement allowance of 80% of the employee's gross wage (up to a maximum of EUR 880).

[75] From September 2021, the flat-rate contribution in the event of a fall in sales will not apply to employers and self-employed persons who are employers.

employers (including self-employed persons who are employers) who maintained jobs even if their activities were interrupted or restricted during a declared emergency.

Employment maintenance allowance for closed establishments. Employers who retain jobs during an emergency, regardless of the size of the enterprise, can apply for a contribution to reimburse the wage costs of employees[76]. These are employers who had to close or restrict their operations by decision of the Office of Public Health of the Slovak Republic.

Support for one-person companies and self-employed persons with no business income. A flat-rate allowance is provided to compensate for loss of earned income[77].

Other measures to support the maintenance of employment: 1. Sector schemes have focused on maintaining employment in nursery and primary art schools. The aid was intended for them if they had kept their jobs during the state of emergency. 2. Business support was provided to tourism, catering, cultural and creative industry entrepreneurs. Tourism aid is intended to compensate applicants for damage resulting from measures taken to mitigate the negative effects of the pandemic. The aim of the promotion of culture and creative industries was to provide a subsidy for the non-covered fixed costs for micro, small and medium-sized enterprises operating in the field, during the difficult conditions for carrying out business activities. 3. The Business Rent Reimbursement Scheme was designed for businesses that paid rent for operations during the period of hardship.

Full remission of employers' and tradesmen's social contributions for closed establishments for the month of April. The measure can be applied if the establishment has been closed for at least 15 days. The government has the possibility to extend the measure by regulation for additional months.

The zero VAT rate on FFP2/3 respirators applies from 12 February to 30 June 2021. In the event of a continued worsening of the pandemic situation, the measure is likely to be extended.

Other measures: 1. Deduction of the tax loss not yet claimed for the years 2015 to 2018 in the 2019 tax return, 2. Suspension of tax audits and tax proceedings at the request of a taxable entity, 3. Postponement of the deadline for filing the motor vehicle tax return (for the 2019 financial year). 4. Extension of unemployment benefit.

Measures relating to the deferral of taxes and social security contributions

The deferral of social contributions includes several measures depending on the period to which it applies. This is mainly a cash shift because the current set-up does not allow for deferral of maturity to the next year. For part of the social contributions, we also assume an accrual impact due to possible non-payment of social contributions in selected risk sectors.

Deferral of advance income tax payments when sales fall by more than 40%. This is a cash impact; the accrual should be settled as part of the annual settlement (in 2021).

Other measures: 1. Postponement of advance payments of motor vehicle tax from April to the end of the pandemic (with settlement at the time of filing the tax return). 2. Optional deferral of the obligation to file a tax return for individuals and corporations (on income tax). 3. Extension of the deadline for employers to pay overpaid income tax, child tax credit and tax credit for interest paid after the annual settlement after the end of the pandemic period.

Bank guarantees

The banking measures include new guaranteed loans to be implemented through five programmes. The first three are launched under a de minimis scheme, under which businesses have the possibility to benefit from aid through three institutions from May 2020. The first option is the provision of a loan with a guarantee from the state-owned joint stock company Slovak Investment Holding (SIH). Loans to businesses are themselves provided by commercial banks. The second institution is EXIMBANKA SR, which also supports large enterprises in the form

[76] From September 2021, employers who maintain jobs during the state of emergency will be reimbursed 80% of the employee's gross wage (up to a maximum of EUR 880).
[77] The current flat-rate allowance is EUR 210, which is a return to the April 2020 to September 2020 setting.

of loans, guarantees and remission of fees for guarantees. Assistance is also provided by the Slovenská záručná a rozvojová banka (SZRB) in the form of loans ranging from 10 thousand to 350 thousand euros for small and medium-sized enterprises and for self-employed persons. A total of approximately EUR 560 million of loans are to be allocated through these programmes, of which EUR 340 million have been granted in 2020. The remaining two so-called large state aid schemes are under the new rules of the Temporary Framework issued by the European Commission. The large aid scheme is intended to provide funds to small, medium and large enterprises through SIH and Eximbank. The guarantees are estimated to amount to a total of EUR 2 billion.

The government has also agreed with financial institutions to defer loan repayments for a maximum of 9 months[78]. Deferment of repayments could be requested until the end of March 2021 for a maximum period of 9 months. The aim of the measure was to provide financial relief until the end of 2021. The measure concerned , who were affected by the current pandemic and requested a deferral. Deferment is without charge but does not imply forgiveness of part of the debt or interest. Clients who have applied for deferral will not have a credit record.

[78] The deferral agreement applies to banks, leasing and non-banking companies for all types of loans from mortgages to consumer loans, while bank loans can be deferred for 9 months. Non-banking and leasing companies can apply for a 3-month deferral with the possibility to subsequently apply for a further 3-month deferral.

Annex 8 – Compulsory tables (2-pack)

Table 0a	2020	2021	2022
Short-term interest rate (annual average)	-0,4	-0,5	-0,5
Long-term interest rate (annual average)	0,1	-0,1	0,6
USD/€ exchange rate (annual average)	1,1	1,2	1,2
Nominal effective exchange rate	-1,5	0,6	0,7
World excluding EU, GDP growth			
EU GDP growth			
Growth of relevant foreign markets	-5,4	4,7	4,8
World import volumes, excluding EU			
Oil prices (Brent, USD/barrel)	37,8	57,5	57,3

Table 0b	2020 (Levels)	2021 (Levels)	2022 (Levels)
1. External environment			
a. Prices of commodities	37,8	57,5	57,3
b. Spreads of German Bond	0,5	0,3	0,7
2. Fiscal policy			
a. General Government net lending/ net borrowing	-5,5	-7,9	-4,9
b. General gross debt	59,7	61,5	61,5
3. Monetary policy / Financial sector / Interest rates assumptions			
a. interest rates			
i. Euribor	-0,4	-0,5	-0,5
ii. Deposit rates	0,1	0,1	0,1
iii. Interest rates for loans			
iv. Yields to maturity of 10 year government bonds	0,1	-0,1	0,6
b. Evolution of deposits	64,2	67,9	70,1
c. Evolution of loans			
d. NPL Trends	0	0	0
Demographic trends			
a. Evolution of working age population	3690,6	3662,8	3634,7
b. Dependency ratios	47,9	49,1	50,4
Structural dependencies			

Table 1a	ESA Code	2020 (Levels)	2020 (rate of change)	2021 (rate of change)	2022 (rate of change)
1. Real GDP	B1*g	84912,6	-4,8	3,7	4,2
of which					
Attributable to the estimated impact of aggregated budgetary measures on economic growth		-	-	-	-
2. Potential GDP		88117,8	0,7	1,6	2,8
Contributions					
Potential GDP contributions: Labour		-	-0,3	-0,1	0,3
Potential GDP contributions: Capital		-	0,7	0,4	0,6
Potential GDP contributions: total factor productivity		-	0,3	1,3	1,9
3. Nominal GDP	B1*g	92079,0	-2,1	5,8	8,3
Components Of real GDP					
4. Private consumption expenditure	P.3	49562,9	-1,0	0,2	2,4
5. Government consumption expenditure	P.3	16109,6	0,3	4,9	4,1
6. Gross fixed capital formation	P.51	17012,1	-12,0	-0,3	16,7
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-377,2	-0,4	2,6	1,9
8. Exports of goods and services	P.6	78305,7	-7,5	10,5	3,1

9. Imports of goods and services	P.7	75889,8	-8,3	10,9	3,9
Contribution to real GDP growth					
10. Final domestic demand		-	-5,6	4,1	4,8
11. Changes in inventories and net acquisition of value	P.52 + P.53	-	-2,5	3,1	-0,6
12. External balance of goods and services	B.11	-	0,6	-0,1	-0,7

Table 1b	2020 (Levels)	2020 (rate of change)	2021 (rate of change)	2022 (rate of change)
1. GDP deflator	1,1	2,4	2,1	3,9
2. Private consumption deflator	1,1	2,2	2,3	4,3
3. HICP	108,5	2,0	2,3	4,0
4. Public consumption deflator	1,2	6,5	2,8	4,8
5. Investment deflator	1,1	0,7	1,9	2,5
6. Export price deflator (goods and services)	1,0	-2,2	3,1	3,1
7. Import price deflator (goods and services)	1,0	-1,8	4,0	3,0

Table 1c	ESA Code	2020 (Levels)	2020 (rate of change)	2021 (rate of change)	2022 (rate of change)
1. Employment, persons		2 399,1	-1,9	-0,8	0,8
2. Employment, hours worked		3 771	-8,8	0,3	3,8
3. Unemployment rate (%)		6,7	0,9	0,4	-0,3
4. Labour productivity, persons		35 394,0	-2,9	4,5	3,4
5. Labour productivity, hours worked		22,5	4,5	3,4	0,4
6. Compensation of employees	D.1	40 744	1,3	3,7	6,0
7. Compensation per employee		19 631	3,3	4,9	5,2

Table 1d	ESA Code	2020 (% of GDP)	2021 (% of GDP)	2022 (% of GDP)
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	0,8	1,6	1,5
of which				
- Balance on goods and services		1,8	1,4	0,8
- Balance of primary incomes and transfers		-2,2	-1,0	-0,6
- Capital account		1,2	1,3	1,3
2. Net lending/borrowing of the private sector	B.9	6,3	9,6	6,4
3. Net lending/borrowing of general government	EDP B.9	-5,5	-7,9	-4,9
4. Statistical discrepancy		0,0	0,0	0,0

Table 2a	ESA Code	2021 (% of GDP)	2022 (% of GDP)
Net lending (EDP B.9) by sub-sector			
1. Net lending/net borrowing: General government	S.13	-7,9	-4,9
2. Net lending/net borrowing: Central government	S.1311	-7,8	-4,7
3. Net lending/net borrowing: State government	S.1312		
4. Net lending/net borrowing: Local government	S.1313	-0,2	-0,2
5.Social security funds	S.1314	0,1	0,0
6. Interest expenditure	EDP D.41	0,9	0,9
7. Primary balance		-7,0	-4,1
8. One-off and other temporary measures		-3,0	-0,7
8.a Of which one-offs on the revenue side: general government		0,1	0,0
8.b Of which one-offs on the expenditure side: general government		-3,1	-0,7
9.Real GDP Growth(%) (=1 in Table 1a)		3,7	4,2

10.Potential GDP Growth(%) (=2 in Table 1a)		1,6	2,8
Contributions			
-Labour		-0,1	0,3
-Capital		0,4	0,6
-Total factor productivity		1,3	1,9
11. Output gap (% of potential GDP)		-1,7	-0,4
12. Cyclical budgetary Component (% of potential GDP)		-0,7	-0,1
13. Cyclically adjusted balance (1-12) (% of potential GDP)		-7,3	-4,8
14. Cyclically adjusted primary balance (13+6) (% of potential GDP)		-6,3	-3,9
15. Structural balance (13-8) (% of potential GDP)		-4,3	-4,1

Table 2b	ESA Code	2021 (% of GDP)	2022 (% of GDP)
1. Gross debt		61,5	61,5
2. Change in gross debt ratio		1,8	-0,1
Contributions to changes in gross debt			
3. Primary balance		7,0	4,0
4. Interest expenditure	EDP D.41	0,9	0,9
5. Stock-flow adjustment		-2,8	-0,3
of which:			
- Differences between cash and accruals		0,1	-0,2
- Net accumulation of financial assets		-3,5	-0,3
of which:			
- privatisation proceeds		0,0	0,0
- Valuation effects and other		0,0	0,0
p.m.: Implicit interest rate on debt		1,7	1,6
Other relevant variables			
6. Liquid financial assets		6,0	5,2
7. Net financial debt (7=1-6)		55,5	56,3
8. Debt amortization (existing bonds) since the end of the previous year		2,7	1,2
9. Percentage of debt denominated in foreign currency		3,4	2,3
10. Average maturity		8,4	8,4

Table 2c	2021 (% of GDP)	2022 (% of GDP)
Public guarantees	12,0	
Public guarantees: linked to EFSF and ESM	9,3	9,0
Public guarantees: linked to the int. financial institutions	1,4	
Public guarantees: linked to COVID-19 guarantees	1,1	1,8
Public guarantees: linked to state-owned fin. institutions	0,3	

Table 3	ESA Code	2021 (% of GDP)	2022 (% of GDP)
General government (S13)			
1. Total revenue at unchanged policies	TR	**41,9**	**41,9**
Of which			
1.1 Taxes on production and imports	D.2	12,0	11,8
1.2 Current taxes on income, wealth, etc	D.5	7,4	7,4
1.3 Capital taxes	D.91	-	-
1.4 social contributions	D.61	15,7	15,0
1.5 Property income	D.4	0,6	0,5

1.6 Other		6,2	7,2
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		35,1	34,2
Total expenditure at unchanged policies	TE	**49,8**	**45,7**
Of which			
2.1 Compensation of employees	D.1	10,9	10,3
2.2 Intermediate consumption	P.2	7,0	6,4
2.3 Social payments	D.62,D.63	22,1	19,2
Of which unemployment benefits		0,3	0,3
2.4 Interest expenditure	EDP D.41	0,9	0,9
2.5 Subsidies	D.3	1,7	1,1
2.6 Gross fixed capital formation	P.51	4,2	4,6
2.7 Capital transfers	D.9	0,5	0,2
2.8 Other		2,5	2,9

Table 4a	ESA Code	2021 (% of GDP)	2022 (% of GDP)
General government (S13)			
1. Total revenue target	TR	41,9	41,9
Of which			
1.1 Taxes on production and imports	D.2	12,0	11,8
1.2 Current taxes on income, wealth, etc.	D.5	7,4	7,4
1.3 Capital taxes	D.91	-	0,0
1.4 social contributions	D.61	15,7	15,0
1.5 Property income	D.4	0,6	0,5
1.6 Other		6,2	7,2
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		35,1	34,2
Total expenditure target	TE	**49,8**	**46,8**
Of which			
2.1 Compensation of employees	D.1	10,9	10,0
2.2 Intermediate consumption	P.2	7,0	7,4
2.3 Social payments	D.62,D.63	22,1	19,2
Of which unemployment benefits		0,3	0,3
2.4 Interest expenditure(=9 in table 2.a)	EDP D.41	0,9	0,9
2.5 Subsidies	D.3	1,7	1,1
2.6 Gross fixed capital formation	P.51	4,2	4,5
2.7 Capital transfers	D.9	0,5	0,3
2.8 Other		2,5	3,3

Table 4b		2020 (Levels)	2020 (% of GDP)	2021 (% of GDP)	2022 (% of GDP)
1. Expenditure on EU programmes fully matched by EU funds revenue		931	0,6	0,7	0,6
1a. Investment expenditure fully matched by EU funds revenue		574	0,6	0,6	0,2
2. Cyclical unemployment benefit expenditure		52	0,1	0,0	0,0
3. Effect of discretionary revenue measures		-449	-0,5	0,1	0,0
4. Revenues increased mandated by law		0	0	0	0

Table 4ci	2021 (% of GDP)	2021	2022 (% of GDP)	2022
Education	4,8	9,6	4,5	9,5
Health	8,8	17,6	8,0	17,0
Employment	1,4	2,8	0,1	0,1

Table 4cii	COFOG Code	2021 (% of GDP)	2022 (% of GDP)
1. General public services	1	6,1	8,2
2. Defence	2	1,5	1,2
3. Public order and safety	3	2,5	2,4
4. Economic affairs	4	7,3	5,2
5. Environmental protection	5	0,8	0,8
6. Housing and community amenities	6	0,5	0,5
7. Health	7	8,8	8,0
8. Recreation, culture and religion	8	1,3	1,1
9. Education	9	4,8	4,5
10. Social protection	10	16,3	15,0
11. Total expenditure (=2 in Table 2c)	TE	**49,8**	**46,8**

Tabuľka 9.a

	ESA	2020 (% of GDP)	2021 (% GDP)	2022 (% GDP)	2023 (% GDP)	2024 (% GDP)
1. RRF GRANTS as included in the revenue projections			0,10	0,73	0,93	0,81
2. Cash disbursements of RRF GRANTS from EU			0,84	1,05	1,33	1,27
Expenditure financed by RRF grants						
3.TOTAL CURRENT EXPENDITURE			0,03	0,13	0,15	0,18
of which:						
- Compensation of employees	D.1		0,01	0,04	0,04	0,04
- Intermediate consumption	P.2		0,01	0,08	0,09	0,12
- Social Payments	D.62+D.632		0,00	0,01	0,01	0,02
- Interest expenditure	D.41					
- Subsidies, payable	D.3					
- Current transfers	D.7		0,00	0,00	0,00	0,00
4. TOTAL CAPITAL EXPENDITURE			0,08	0,60	0,78	0,63
of which:						
- Gross fixed capital formation	P.51g		0,08	0,60	0,78	0,63
- Capital transfers	D.9					
Other costs financed by RRF grants						
5. Reduction in tax revenue						
6. Other costs with impact on revenue						
7. Financial transactions						